BUSINESS COMMUNITY'S COMPLIANCE WITH FEDERAL MONEY LAUNDERING STATUTES

HEARING

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

OF THE

COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

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BUSINESS COMMUNITY'S COMPLIANCE WITH FEDERAL MONEY LAUNDERING STATUTES

THURSDAY, SEPTEMBER 20, 1990

U.S. House of Representatives,
Committee on Ways and Means,
Subcommittee on Oversight,
Washington, D.C.

The subcommittee met, pursuant to call, at 9:30 a.m., in room 1100, Longworth House Office Building, Hon. J.J. Pickle (chairman of the subcommittee) presiding.

[The press release announcing the hearing follows:]

FOR IMMEDIATE RELEASE
TUESDAY, SEPTEMBER 18, 1990

PRESS RELEASE #34
SUBCOMMITTEE ON OVERSIGHT
COMMITTEE ON WAYS AND MEANS
U.S. HOUSE OF REPRESENTATIVES
1105 LONGWORTH HOUSE OFFICE BLDG.
WASHINGTON, D.C. 20515
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THE HONORABLE J. J. PICKLE (D., TEXAS), CHAIRMAN, SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS, U.S. HOUSE OF REPRESENTATIVES, ANNOUNCES HEARINGS ON THE BUSINESS COMMUNITY'S COMPLIANCE WITH FEDERAL MONEY LAUNDERING STATUTES

The Honorable J. J. Pickle (D., Texas), Chairman of the Subcommittee on Oversight, Committee on Ways and Means, U.S. House of Representatives, announced today that the Subcommittee will conduct a hearing to review the business community's compliance with Federal money laundering statutes. The hearings are scheduled for Thursday, September 20, 1990, beginning at 9:30 a.m., in the main Committee hearing room, 1100 Longworth House Office Building.

Over the past year, the Subcommittee has conducted a series of investigations into compliance with Internal Revenue Code section 6050I and other related money laundering statutes. Section 6050I was enacted in 1984 and intended to help the Internal Revenue Service (IRS) identify taxpayers who were underreporting income by requiring the reporting of certain large cash transactions. Today, these reports have taken on greater importance as drug money is being converted directly from cash into luxury consumer products.

Section 6050I requires a person, engaged in a trade or business, who receives more than $10,000 in cash in one or more related transactions, to report the transaction to the IRS. The business person who receives the cash must file a Form 8300 with the IRS within 15 days after the transaction is complete. Form 8300 requires information on the name, address, social security number, and occupation of the person who paid in cash, and, if applicable, the person for whom the buyer was purchasing the item.

In announcing these hearings, Chairman Pickle stated: "The Subcommittee's investigation of the business community's compliance with Federal money laundering laws shows that some merchants, including automobile dealers, real estate agents, jewelers, antique dealers, oriental rug dealers, and others are deliberately violating Internal Revenue Code reporting requirements. For example, Subcommittee investigators operating undercover found that 95 percent of the 79 merchants approached were willing to take cash and not report the transaction to the IRS. A quarter of them went out of their way to suggest ways to structure anticipated transactions to avoid the reporting requirements. It seems that whatever the Internal Revenue Service is doing is not effective.

"The law is crystal clear--cash transactions over $10,000 received in a trade or business must be reported. To find that the portion of the business community the Subcommittee investigated is flagrantly violating the law, is alarming, to say the least. This needs to get fixed and fixed fast."

DETAILS FOR SUBMISSION OF WRITTEN COMMENTS:

Because the oral testimony at the hearing will be presented by invited witnesses only, interested parties are encouraged to provide written statements to the Committee for the printed hearing record. Persons submitting written comments should submit six (6) copies by the close of business, Friday, October 19, 1990, to Robert J. Leonard, Chief Counsel, Committee on Ways and Means, U.S. House of Representatives, room 1102 Longworth House Office Building, Washington, D.C. 20515.

FORMATTING REQUIREMENTS:

Each statement presented for printing to the Committee by a witness, any written statement or exhibit submitted for the printed record or any written comments in response to a request for written comments must conform to the guidelines listed below. Any statement or exhibit not in compliance with these guidelines will not be printed, but will be maintained in the Committee files for review and use by the Committee.

1. All statements and any accompanying exhibits for printing must be typed in single space on legal-size paper and may not exceed a total of 10 pages.
2. Copies of whole documents submitted as exhibit material will not be accepted for printing. Instead, exhibit material should be referenced and quoted or paraphrased. All exhibit material not meeting these specifications will be maintained in the Committee files for review and use by the Committee.
3. Statements must contain the name and capacity in which the witness will appear or, for written comments, the name and capacity of the person submitting the statement, as well as any clients or persons, or any organization for whom the witness appears or for whom the statement is submitted.
4. A supplemental sheet must accompany each statement listing the name, full address, a telephone number where the witness or the designated representative may be reached and a topical outline or summary of the comments and recommendations in the full statement. This supplemental sheet will not be included in the printed record.

The above restrictions and limitations apply only to material being submitted for printing. Statements and exhibits or supplementary material submitted solely for distribution to the Members, the press and public during the course of a public hearing, may be submitted in other forms.

Chairman PICKLE. The Chair would ask the committee to please come to order and ask our guests to please take their seats.

I have an opening statement. I think Mr. Schulze also has an opening statement. so we will proceed with the order of business.

In 1984, section 6050I of the Internal Revenue Code was enacted requiring businesses to report to the IRS all transactions that involved more than $10,000 in cash. This requirement was added because Congress believed that reporting the spending of large amounts of cash would enable the IRS to identify taxpayers with large cash incomes that might otherwise be underreported.

The business community was asked 6 years ago to help the Government. To date, the Government's call has been largely ignored. In fact, I believe subcommittee investigators have uncovered a national disgrace involving our business community.

Since July, subcommittee investigators went to 79 businesses nationwide and negotiated for the purchase of $4.2 million in luxury goods—each for more than $10,000 cash and subject to section 6050I. The investigators made arrangements to purchase, with cash, expensive items including a $55,000 persian rug, a $250,000 condominium, a $22,000 antique mirror, a $73,000 Porsche, a $15,000 Mazda Miata, and a $17,000 Rolex watch. Seventy-six out of seventy-nine of these businesses agreed to accept cash and not report the transactions to the IRS. In fact, some of the businesses actually suggested ploys to circumvent the reporting requirements.

It is shocking that businesses throughout the country are routinely conniving with customers to violate the law. The testimony of subcommittee investigators, which follows, is in my opinion a serious indictment of the U.S. business community. To say the least: it is an embarrassment to the business community.

While some of the unreported cash being used to purchase expensive consumer items may be from drug dealers, the law is intended to enhance tax compliance by everyone, including those doctors, lawyers, professional executives, businessmen, and others with large cash incomes. The business community is in the best position to witness the spending of ill-gotten gains, and they are the ones responsible for reporting these transactions.

Just like for banks, there is a law on the books which clearly requires the reporting of cash transactions over $10,000. Just like the currency transaction reports—CTRs—filed by banks, businesses must faithfully comply with the law and file the form 8300. The form 8300 is a simple, one page document. The information required by statue is essentially the same as demanded by most businesses for credit card purchases—name, address, amount, and other data, most of which is contained on a driver's license.

Our investigation will show that violation of the law is common practice. Section 6050I has been on the books for 6 years and yet only 94,000 form 8300s have been filed, including 22,000 filed in 1989, in the entire U.S.A. Businesses in the District of Columbia, by way of example, only filed three form 8300s so far this year. Something is clearly wrong.

Businesses from across our land are willing to assist others in laundering money and evading taxes for a "quick buck." This is a shocking and unacceptable fact. It seems that businesses will take cash from anybody—without question and regardless of where it comes from. These businesses are costing taxpayers billions in uncollected taxes. I consider such businesses as coconspirators and, they must, and will, be held accountable.

Today's hearing will show that 95 percent of the businesses investigated were ready, able, and willing to violate the law. In many cases, the merchants suggested to the subcommittee investigators how to structure the transactions with money orders or cashier's checks, multiple payments, fictitious names, or other questionable schemes, in order to avoid the reporting requirements.

There was one case where an established jewelry store in Atlanta was willing to accept in excess of $17,000 for two Rolex watches despite the fact that two IRS agents were literally in the store's back room looking at the company's records for cash transactions. The salesman even asked the subcommittee investigators to lower their voices while he proceeded to concoct a scheme to circumvent the law.

Several dealers admitted having clients who regularly dealt in cash—like doctors and lawyers. In one instance, the sales representative said he had a "pastor who brought in a satchel of bills in small denominations," and wondered if the pastor had been dipping into the collection plate.

Subcommittee investigators also looked at the trial records of the notorious Washington, D.C. drug dealer, Rayful Edmond, who was recently prosecuted along with 29 other defendants for narcotics trafficking. It is well known that his drug ring freely spent millions of cash dollars for consumer goods and services in the Metropolitan D.C. area. In order to understand the nature of cash sales and schemes to evade section 6050I reporting, the subcommittee obtained public records relating to cash transactions from the trial and talked with the merchants who did business with the defendants and others on a cash basis. According to the merchants themselves, none of these transactions were ever reported to the IRS. We will hear more about this and other aspects of the subcommittee's investigation in a few minutes.

The fact that any merchant would knowingly accept large sums of cash and deliberately conceal these transactions is unconscionable—but more importantly a violation of the law. It is quite possible that the civil sanctions applicable to willful violations are not sufficient to promote compliance. Perhaps some of the merchants did not understand the law. Maybe there are flaws in the statute which allow businesses to easily circumvent the requirements. Possibly the business community needs to be forcefully reminded that their country needs their help to fight money laundering and tax evasion.

Everyone has a role in supporting our tax system. The time has certainly come for the business community to do their share. Today, we hope this message is heard "loud and clear".

I will recognize Mr. Schulze. I appreciate the witnesses appearing today. We all recognize this is a national religious holiday for Jewish individuals and some could not testify today. We have asked them to submit statements and appear for us at other hearings, we appreciate your cooperation very much.

Mr. Schulze, do you have an opening statement?

Mr. **Schulze**. Thank you, Mr. Chairman.

Money laundering enforcement is an area that I have been involved with for quite some time. In fact in the past four Congresses, I have sponsored legislation to replace existing $100 bills with newly issued notes. This would put a quick brake on the $100 billion moving through the underground economy annually, including the tremendous amounts of cash generated by the illegal drug trade. Mr. Rangel and I recently supported a Bank Secrecy Act amendment requiring Treasury, for the first time, to conduct a serious feasibility study of this idea, and I plan to ask Treasury about their effort later on this morning.

But today, Mr. Chairman, we are focusing on another, and I am sorry to say, neglected, link in the money laundering story. I am talking about the large cash transactions, involving trades or businesses right in our own backyard, who sell the luxury cars, private airplanes, and real estate that are the trappings of the drug trade. In fact, we could have titled today's hearing "The Lifestyles of the Rich and In-famous". This activity shows the virtually unlimited shopping spree of those who have reaped the ill-gotten gains of the drug trade and other illicit enterprises.

Mr. Chairman, we all know the old adage, "if you are not part of the solution, you are part of the problem." Unfortunately, that seems to be the story of IRS' enforcement of cash reporting requirement in section 6050I of the Internal Revenue Code, the so-called form 8300 program. Persons engaged in a trade or business who receive more than $10,000 in cash are supposed to report this to IRS. When Congress passed 6050I back in 1984, we intended it to be an important tool for tracking unreported income—the kind of income often derived from the drug trade.

However, our investigation found an almost total breakdown in the 8300 program. We will hear from the subcommittee's undercover investigators not only how easy it is to avoid the 8300 requirement, but also just how willing some businesses are, across the board, to act like the old "no-tell motels" for those who want to hide their cash from IRS' scrutiny. We will also hear about how businesses right here in the Nation's Capital knowingly profited from the lavish, "cash-rich" lifestyle of midlevel drug lords.

Now I am the first one on this committee to oppose placing unnecessary burdens on the legitimate businessman, especially small businesses. But, if we are ever going to put a stop to the drug and crime scourge ravaging this country, everyone, including the business community, has to do their part.

The bottom line, though, Mr. Chairman, is that the IRS has just "dropped the ball" on the 8300 program. They are the sole agency entrusted with getting out the word to people that we mean business when it comes to combatting money laundering.

Yet, their enforcement efforts have been weak at best. For example, our investigators found confusion and misunderstanding running rampant. Only one of the establishments in the D.C. area visited by our staff fully understood the requirement, while many other thought this was a problem that only the banks had to deal with.

Clearly, we in the Congress need to do our part to fix this situation and reexamine the 6050I statute. I know for a fact that there are loopholes in 6050I big enough to literally drive a brandnew Mercedes Benz through. So, Mr. Chairman, I look forward to working with you on ways to tighten up the 6050I statute, and to ensure that what we ask of the business community is reasonable, enforceable, and effective. I also look forward to hearing from today's witnesses from Treasury and IRS about their plans for putting this program back on track.

Chairman PICKLE. Do any other members care to make a statement?

Mr. RANGEL. Mr. Chairman, let me take this opportunity to congratulate you for the fearless leadership you are providing in this and other violations of the criminal law.

To go after criminals whether they are in churches, in banks or other types of businesses, is not popular. It certainly is not political. We get very little help from the IRS because these are areas that they find it very difficult to tread.

I want to congratulate the agents for coming up with an accurate report of what Dick Schulze and I have known has taken place in everybody's congressional district. It is easy enough to see the DEA agents and police kicking on people's doors and landing in jail. We think that is a part of the war.

But those people behind the counter, in the banks, in the businesses are just as much violators and criminals in the war as the hoodlums on the street. So I want to congratulate you because you have been consistent. I want you to know the members stand with you in the type of investigations and leadership you have provided this committee.

Thank you, very much.

Chairman PICKLE. I thank you, Mr. Rangel.

We appreciate your remarks. We appreciate the leadership you are giving to the Nation and this committee in the Narcotics Committee as a whole. You are giving great leadership and we appreciate it.

Mr. McGrath.

Mr. McGRATH. Thank you, Mr. Chairman.

Mr. Chairman, I, too, appreciate your interest and leadership to achieve greater compliance with the section 6050I of the IRS Code. One of the great frustrations we share at many levels of Government is the apparent inability to deal with organized criminal activity, particularly with the illegal drug trade.

Any law enforcement directed at detecting high levels of cash transactions depends on the Government's ability to reduce or eliminate economic incentives that attract participants in drug trade or other illicit enterprises. I am appalled by the lack of compliance with fairly simple reporting requirements concerning large cash transactions. Every business person who evades the law in this area is contributing to our Nation's most serious domestic problems.

In a democratic society such as ours, the thought of Government agents constantly spying on private enterprise is compulsive. Voluntary compliance is the cornerstone of our tax system. But unbridled greed seems to have overtaken feelings of responsible citizenship in many cases.

I hope that our efforts today can lead to an improved enforcement and to a greater awareness among the business community of their legal obligations.

Thank you, Mr. Chairman.

Chairman PICKLE. Mr. Shaw.

Mr. SHAW. Mr. Chairman, I have a prepared statement that I ask unanimous consent to be inserted in the record. I will summarize it. I think of all the opening statements of the remarks that were most telling was stated by our friend, Charlie Rangel, when he said that people who avoid this law or evade this law are just as much a part of the problem as the drug dealers themselves.

The Congress passed the statute which we are having this hearing on this morning in order to make it more and more difficult for the drug dealers to dispose of their cash by cash transactions and require them to expose a paper trail to make it more and more difficult for them to profit from their ill-gotten gains.

It is absolutely shocking to me. This testimony this morning I understand will bring this out, that the very large percentage, the very large majority of American business people who are willing to not only flaunt this law, willfully violate this law, or coach those with the large amounts of cash as to how they can avoid this law.

To me this is absolutely unconscionable. Mr. Chairman, I congratulate you for having this hearing. I think we do have a big problem with this law. We will have to address what our definition of currency is. However, I think we have an even greater problem with people out there obeying this law.

Their motives, as Mr. McGrath just stated, are nothing but greed. People who otherwise do not steal, people who file income taxes properly, but when it comes to turning down the sale of a $100,000 boat, or $150,000 worth of rugs and all types of transactions, they are not willing to pass up the sale.

I think law enforcement in this area is everybody's obligation.

Mr. Chairman, I look forward to the hearing this morning. I know that the Congress is out today for the Jewish holiday but because of the importance of this particular matter and because of the difficulty in scheduling things during the closing days of Congress, I congratulate you and the Members who are here today for having this hearing this morning.

[The prepared statement follows:]

OPENING STATEMENT OF HON. E. CLAY SHAW, JR.

Mr. Chairman, I thank the subcommittee for bringing this extensive problem to our attention. As this investigation has shown, the extent to which the cash transaction reporting requirement has been ignored by these businesses is deeply disturbing. Despite the fact that nearly all the businesses clearly understood the nature and intent of the money laundering statute, most were perfectly willing to accept cash payments in excess of $10,000 on the condition that the transaction not be reported to the I.R.S. In addition, some of the businesses actually suggested ways for purchasers to skirt the reporting requirements, by, for example, using multiple cashiers checks as payment.

As a result of this investigation, several conclusions deserve mention. First, these violations are widespread. The oversight investigation found businesses in cities nationwide that were willing to break the law. Clearly, wherever there is ill-gotten and unreported wealth, especially from the drug trade, there will be individuals willing to flout reporting requirements for cash transactions.

Second, the businesses found to disregard this law are not limited to those normally associated with the drug trade. The willingness of antique and rug dealers to accept large cash payments without reporting them indicates that this underground economy may not be financed exclusively with drug dollars.

And there, the Rayful Edmond case suggests that drug dollars can be readily laundered to purchase real estate, autos, and jewelry. It is clear that in order to fully prosecute the war on drugs, we must keep dealers from enjoying the spoils of the drug trade. By closing ranks on those who allow drug dealers to launder their profits, we can cut off incentives for the drug trade. This is imperative, and I am eager to address the conditions behind this problem.

Mr. Chairman, when the widespread violation of the bank currency transaction reporting requirement was made public, the number of bank reports filed skyrocketed. I hope that, as a result of this hearing and follow-up action, we can spur a similar reaction from businesses. By targeting money laundering, we can and must stop drug dealers from enjoying the profits of their destructive trade.

Chairman PICKLE. Thank you.

Mr. Anthony, do you have a statement?

Mr. ANTHONY. Mr. Chairman, I look forward not only to our own witnesses who went out and gathered the information for us but I must say I am more anxious to hear representatives of the business community to come in and try to explain why 95 percent of their colleagues are willing to circumvent a very simple, straightforward law that asks them to put a certain amount of information such as a name and address, no more information that would be required if you try to cash a check downtown or if you make a purchase with Visa or Mastercard.

It is obvious from a preliminary review of this information these are greedy business people who felt if they did not take the cash somebody down the street would. They were willing to bypass the law to make some profit. That business person needs to know that if they do violate the law, they become a coconspirator in every single crime that is made behind those particular transactions. I am asking the business community to come forward with some explanations on what they plan to do in their own community to see to it that this egregious situation is corrected.

Chairman PICKLE. Thank you.

Now the committee will hear testimony from the two investigators who served as representatives of our committee and went to nine different cities, Barney Gomez, and Leigh Jackson loaned to us from the GAO. Mr. Gomez, we will hear the testimony you wish to present.

STATEMENT OF BARNEY GOMEZ, ACCOMPANIED BY LEIGH JACKSON, SPECIAL AGENTS ASSIGNED TO THE SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS, FROM THE OFFICE OF SPECIAL INVESTIGATIONS, U.S. GENERAL ACCOUNTING OFFICE

Mr. GOMEZ. Good morning Mr. Chairman and members of the subcommittee. We are pleased to be here today to discuss the results of our investigation of business establishments' compliance with Internal Revenue Code section 6050I relating to money laundering. My name is Barney Gomez, and with me today is my partner, Leigh Jackson, who assisted with the investigation. We are on assignment to the subcommittee from the Office of Special Investigations, U.S. General Accounting Office.

We conducted our investigation from July 31, 1990, through September 7, 1990. During that period we visited nine cities throughout the Nation—Atlanta, Ga; Boston, Mass.; Denver, Colo.; Detroit, Mich.; Indianapolis, Ind.; Minneapolis/St. Paul, Minn.; New York City, N.Y.; San Antonio, Tex.; and Washington, D.C. At each location we focused our investigation on five types of business establishments: automobile dealers, jewelers, antique dealers, oriental rug dealers, and real estate firms. During the course of our investigation we discussed purchasing 82 different items, each for more than $10,000. In total, we negotiated the cash purchase of items valued at over $4.2 million with owners, managers, and/or sales representatives of 79 business establishments.

We conducted our undercover operation in the following manner. At each business location we visited, we expressed to the business owner, manager, and/or sales representative an interest in purchasing item(s) valued over $10,000. We engaged in conversations with these individuals to determine whether they were, one, knowledgeable about the IRS reporting requirement; two, willing to accept a cash transaction of more than $10,000 without reporting it; three, willing to record the purchase in the name of a third person, or company; and four, willing to voluntarily suggest ways to avoid the IRS reporting requirements.

The overall results of our investigation were quite astonishing and indicated to us a blatant and knowing disregard for the filing requirements under 6050I. Representatives from 76 businesses of the 79 businesses we visited expressed both a willingness to accept cash in excess of $10,000 for the sale of an item and not report it to the IRS, and to register the sale under a false name, a company name, or as a "cash sale". Only three businesses declined.

Representatives of 23 of the 76 businesses communicated a knowledge of, or provided sufficient information to suggest a knowledge of the Internal Revenue Code reporting requirements. Representatives of 21 of these 23 businesses voluntarily suggested ways to circumvent the requirements, or at least what they perceived to be the requirements, such as using two or more cashier's checks in amounts under $10,000, making partial payments with cash and cashier's checks, splitting purchases into amounts under $10,000, extending cash payments over a period of days, and using two or more individuals to handle the cash transaction.

As the following examples illustrate, it was not difficult for us to make arrangements to launder cash. The merchants we dealt with were eager to take our money without much concern about our identity or the Tax Code reporting requirements.

For example, in Washington, D.C., we talked with a realtor about buying a three-bedroom condominium here on Capitol Hill priced at $259,500. After we stated that we wanted to keep the cash purchase quite and asked about the need to report a cash transaction, the realtor told us, "It will be reported to the title company * * * I'll have to check with the title company to make sure." Later, we phoned the realtor to determine if it was necessary to report the cash transaction. The realtor told us, "Look, I have to report cash payments for the condo so, you should pay with cashier checks, notes, and money orders, that's how you can get around reporting. I've already found you an attorney who works with cash purchases and he is aware of your situation. I want you to work with him."

Mr. ANTHONY. Mr. Gomez, do you know the attorney's name?

Mr. GOMEZ. We do have the name, sir.

Mr. ANTHONY. Will you provide it to us in private?

Mr. GOMEZ. Yes, sir.

Chairman PICKLE. Go ahead.

Mr. GOMEZ. We also visited an antique dealer in Washington, D.C., and discussed buying an item valued at $15,000. After we told the owner that the purchase would be in cash and asked about the need for him to report the cash transaction, he stated, "No, it just so happens that this is one of the pieces I don't have on inventory, just for cash deals like this."

We visited a jeweler in Atlanta and discussed the cash purchase of two watches totaling $17,408. During the conversation about our not wanting the cash transaction reported, the jeweler stated, "I have to report any sale over $10,000 in cash to the IRS. As a matter of fact, for the past 6 months IRS agents have been in our office reviewing our past cash sales transactions." The jeweler then lowered his voice and said, "Let's talk a little quieter because we still have a couple of IRS people in the back looking at our records * * * there is an IRS form I have to fill out for any cash sale over $10,000 * * * the IRS is trying to crack down on money laundering from drug dealers." After we repeated that we needed to pay with cash the jeweler suggested "* * * we could split the total purchase into two separate purchases * * * that way we'll avoid the IRS requirements. You know it's not the spirit of the law, it's the letter of the law." Of course, splitting the transaction to avoid the reporting requirement violates even the letter of the law.

We also visited a nationally known jewelry firm with a business location in Atlanta and discussed the cash purchase of two Rolex watches totaling $23,014. When we inquired about reporting the cash transaction, the store manager stated to the sales representative, "Any cash over $10,000 has to be reported to the IRS. He'll have to complete a form and give his name and Social Security number." The sales representative with whom we were discussing the purchase asked, "What if he paid part in cash, say, $9,999, and the remainder with a cashier's check? That would be OK, wouldn't it?" The manager erroneously responded, "Yes, as long as the cash isn't over $10,000."

We discussed buying a Honda Prelude priced at $18,500 in Denver. When we asked the sales representative whether he was required to report the fact that we paid in cash, he responded, "Are we talking green cash, green backs?

* * * I'm afraid we have to report cash sales over, I believe $3,000, but I'm not sure of the amount * * * It's reported to the Federal Government * * * I'm afraid we have to comply with the reporting requirement." After we stated that we were locked into paying with cash, we thanked the sales representative and prepared to leave. The sales representative stopped us and suggested that he speak with his manager to make sure of the regulations. We were told by the manager, "Anything over $10,000 must be reported. It can't be reported on two separate days because it's considered to be part of the same transaction." However, he then suggested a way to circumvent the requirement when he stated, "Here's what you may want to do. You can pay $9,500 in cash, green backs, and get a bank cashier's check for the balance. That way you don't have to worry about the IRS reporting requirement. But you have to stay under the $10,000 limit because then the bank will report it." We asked about the purpose of reporting large cash transactions and the sales representative said, "It has something to do with laundering drug money, something about tracking the funds."

We also visited an antique dealer in Denver and discussed buying a French armoire valued at $15,000. We stated to the owner that we wanted to pay cash for the armoire and asked if this posed any particular problems. The owner stated, "No problem at all. Cash purchases are fine with me. As a matter of fact a lot of my customers pay with cash." We asked whether he needed to report the fact that we paid in cash to anyone, and he responded, "No, I don't have to report the cash sale to anyone." When we asked him what information he needed for the sales receipt, he responded, "I'll just give you a blank receipt made out to cash, so I don't need any information."

While in Minneapolis we discussed purchasing a Persian Kashan rug valued at $12,560. When we inquired about the business having to report the fact that we paid in cash, we were told, "There's no problem with cash." When we inquired about the necessity of having my name on the sales invoice, we were told, "I don't care whose name you put it in, you could use anyone's, you know what I mean." As we prepared to leave the business establishment we asked, "If we wanted to buy 15 additional rugs in the $15,000 range, and paid in cash, would that pose any problem?" We were told, "No. We will have the rugs * * * no problem with cash, no, it won't be reported."

Also in Minneapolis we visited an automobile dealer who sold restored vehicles and discussed buying a restored Corvette priced at $23,000. When we asked about what information he would need for the sales invoice, the manager responded, "Well, I have to put a name down and a telephone number, but whatever name and phone number you give me is OK. You can even use Mickey Mouse."

In Indianapolis we visited an antique dealer and discussed purchasing two items valued at $23,000. After explaining that we wanted to keep the cash purchase quiet the owner said, "Yes, I know what you mean * * * you won't have to worry about how we handle the cash. What we can do is for our records we'll show the sale as being made to an auction house or perhaps to another antique dealer so the sale won't be associated with you. That's how we'll handle it at this end so you won't have to worry about us reporting the cash."

We also visited an oriental rug dealer in Indianapolis and discussed purchasing two Persian rugs totaling $21,800. When we discussed the necessity to report the cash transaction the owner stated, "I understand what you mean * * * no, I don't have to report the cash to anyone * * * I won't need your name * * * you don't have to worry. We'll take care of the cash." He then lowered his voice and said, "What we'll do is make a couple cash deposits at $9,000 and the final at the difference. That way the bank won't have to report receiving cash of $10,000. If I were to deposit cash in amounts of $10,000 or more, the bank would have to report the deposits. But you don't have to worry about that. We'll handle it."

In Detroit we discussed buying a porcelain urn valued at $15,000. When we asked the sales representative about the need to report the cash sale, she spoke with the owner and the company accountant who, according to the sales representative "knows the tax rules." We were erroneously told by the sales representative and the owner, "all you have to do is make two payments, one payment of $9,500 one day and the remainder on the following day. If the payments are separated by a 24-hour period, they are not reported as one transaction."

In another instance, we expressed interest in purchasing a $28,500 Corvette from a Chevrolet dealership in the Boston area. After telling the sales representative we wanted to pay cash money for the car but did not want our names reported in relation to a cash payment, the sales representative suggested that my companion and I each give him cash amounts of $8,000. He would then use dealership employees to handle the remaining cash amounts. In his opinion, this would result in several cash transactions of less than $10,000 each. This suggestion was made after we asked the sales representative why he had to report cash sales over $10,000. His response to our inquiry was, "It has something to do with money laundering."

While in Boston we also visited a jeweler and discussed buying matching male and female Rolex watches for $16,000. We told the sales representative we wanted to pay for the watches in cash, and would like to keep the sale as quiet as possible. The sales representative responded, "This isn't a problem. I don't know who you are, and what you want to do with the sales slip is up to you. As far as I know, you could be a 'wiseguy', I wouldn't know. Cash is fine."

We visited an automobile dealership in San Antonio and discussed buying a $30,500 Audi 100. We told the sales representative that we would be paying cash for the car and wanted to keep the cash transaction quiet and not have it reported to anyone. The sales representative responded, "No problem, remember we sell

Porsches here." When we asked about informational needs for the sales invoice, the sales representative stated, "If you pay cash the only name on the invoice is ours and you can put anyone's name on the registration."

In New York City we visited an oriental rug dealer and discussed purchasing a $45,000 antique Tabriz rug. During our conversation about the need to report the cash purchase the owner stated, "Yes * * * for our own records I have to record the sale * * * also, I must make a deposit * * * your name won't be associated with the cash deposit or on the invoice if that's what you want."

During our undercover operation we emphasized to all businesses that we were paying with cash money. They said don't worry. We will keep it quiet. Others stated you don't have to worry about us reporting your name. A lot of our customers want to remain discreet. One jeweler stated, no, I won't report that to anyone. We have quite a few doctors who don't want cash purchases reported. Once we had a pastor come in to pay with cash. We felt he might have been in the collection basket. When my partner asked why, he said, because he paid in $1, $5, and $10 bills.

This completes my prepared remarks. My partner and I will be happy to answer any questions you may have.

Chairman PICKLE. I thank you, Mr. Gomez. Ms. Jackson, do you want to add any statement or does his testimony go for you also?

Ms. JACKSON. No, I do not.

[Attachments to the prepared statement follow:]

Summary of Subcommittee Undercover Investigation
IRS Form 8300 Enforcement

By Location:

Location	Total Businesses Contacted	Businesses willing to take cash without reporting	Businesses suggesting ways to avoid rules	Businesses willing to take false name	Total Potential Dollars Laundered
Atlanta	10	100%	30%	90%	$581,175
Boston	10	100%	20%	100%	$682,200
Denver	9	100%	33%	100%	$566,611
Detroit	2	100%	100%	100%	$30,000
Indianapolis	10	90%	30%	90%	$415,069
Minneapolis	9	89%	11%	89%	$388,280
New York	10	90%	20%	90%	$626,932
San Antonio	9	100%	11%	100%	$261,220
Washington, DC	10	100%	30%	100%	$611,351
Totals	79	**96%**	**25%**	**95%**	**$4,162,838**

By Type of Business:

Type of Business	Total Businesses Contacted	Businesses willing to take cash without reporting	Businesses suggesting ways to avoid rules	Businesses willing to take false name	Total Potential Dollars Laundered
Antiques	14	100%	21%	100%	$268,899
Automobile	16	94%	63%	94%	$436,523
Gallery	2	100%	0%	100%	$30,500
Jewelry	15	87%	33%	80%	$219,136
Oriental Rugs	16	100%	13%	100%	$457,830
Real Estate	16	100%	0%	100%	$2,749,950
Totals	79	**96%**	**25%**	**95%**	**$4,162,838**

Subcommittee Undercover Investigation
IRS Form 8300 Enforcement

LOCATION	NATURE OF BUSINESS	COST OF ITEM	WILLING TO TAKE CASH WITHOUT REPORTING	WILLING TO TAKE FALSE NAME	SUGGESTED WAYS TO VOID RULE
ATLANTA, GA	AUTOMOBILE	$73,853	YES	YES	YES
ATLANTA, GA	AUTOMOBILE	$27,500	YES	YES	--
ATLANTA, GA	REAL ESTATE	$169,900	YES	YES	--
ATLANTA, GA	REAL ESTATE	$198,500	YES	YES	--
ATLANTA, GA	JEWELRY	$17,408	YES	YES	YES
ATLANTA, GA	JEWELRY	$23,014	YES	--	YES
ATLANTA, GA	ANTIQUES	$22,000	YES	YES	--
ATLANTA, GA	ANTIQUES	$17,500	YES	YES	--
ATLANTA, GA	ORIENTAL RUGS	$14,500	YES	YES	--
ATLANTA, GA	ORIENTAL RUGS	$17,000	YES	YES	--
BOSTON, MA	REAL ESTATE	$275,000	YES	YES	NO
BOSTON, MA	REAL ESTATE	$225,000	YES	YES	NO
BOSTON, MA	JEWELRY	$18,000	YES	YES	NO
BOSTON, MA	JEWELRY	$16,000	YES	YES	NO
BOSTON, MA	ORIENTAL RUGS	$28,800	YES	YES	--
BOSTON, MA	ORIENTAL RUGS	$15,300	YES	YES	--
BOSTON, MA	AUTOMOBILE	$28,500	YES	YES	YES
BOSTON, MA	AUTOMOBILE	$39,600	YES	YES	YES
BOSTON, MA	ANTIQUES	$16,500	YES	YES	NO
BOSTON, MA	GALLERY	$19,500	YES	YES	NO
DENVER, CO	GALLERY	$11,000	YES	YES	--
DENVER, CO	AUTOMOBILE	$18,500	YES	YES	YES
DENVER, CO	ANTIQUES	$15,000	YES	YES	--
DENVER, CO	ORIENTAL RUGS	$42,500	YES	YES	--
DENVER, CO	ORIENTAL RUGS	$55,000	YES	YES	--
DENVER, CO	JEWELRY	$15,361	YES	YES	YES
DENVER, CO	JEWELRY	$9,350	YES	YES	YES
DENVER, CO	REAL ESTATE	$225,000	YES	YES	--
DENVER, CO	REAL ESTATE	$174,900	YES	YES	--
DETROIT, MI	ANTIQUES	$15,000	YES	YES	YES
DETROIT, MI	AUTOMOBILE	$15,000	YES	YES	YES
INDIANAPOLIS, IN	AUTOMOBILE	$24,572	YES	YES	YES
INDIANAPOLIS, IN	AUTOMOBILE	$37,410	NO	NO	--
INDIANAPOLIS, IN	ANTIQUES	$23,000	YES	YES	YES
INDIANAPOLIS, IN	ANTIQUES	$15,000	YES	YES	--
INDIANAPOLIS, IN	JEWELRY	$14,057	YES	YES	--
INDIANAPOLIS, IN	JEWELRY	$14,240	YES	YES	--
INDIANAPOLIS, IN	ORIENTAL RUGS	$45,000	YES	YES	--
INDIANAPOLIS, IN	ORIENTAL RUGS	$21,800	YES	YES	YES
INDIANAPOLIS, IN	REAL ESTATE	$124,900	YES	YES	--

INDIANAPOLIS, IN	REAL ESTATE	$132,500	YES	YES	--
MINNEAPOLIS, MN	AUTOMOBILE	$28,000	YES	YES	YES
MINNEAPOLIS, MN	AUTOMOBILE	$23,000	YES	YES	NO
MINNEAPOLIS, MN	REAL ESTATE	$169,000	YES	YES	--
MINNEAPOLIS, MN	REAL ESTATE	$91,000	YES	YES	NO
MINNEAPOLIS, MN	JEWELRY	$15,400	NO	--	NO
MINNEAPOLIS, MN	JEWELRY	$12,000	YES	YES	NO
MINNEAPOLIS, MN	ORIENTAL RUGS	$33,920	YES	YES	NO
MINNEAPOLIS, MN	ORIENTAL RUGS	$12,560	YES	YES	--
MINNEAPOLIS, MN	ANTIQUES	$18,800	YES	YES	NO
NEW YORK, NY	AUTOMOBILE	$16,959	YES	YES	YES
NEW YORK, NY	AUTOMOBILE	$14,913	YES	YES	--
NEW YORK, NY	REAL ESTATE	$250,000	YES	YES	--
NEW YORK, NY	REAL ESTATE	$200,000	YES	YES	--
NEW YORK, NY	JEWELRY	$11,760	YES	YES	--
NEW YORK, NY	JEWELRY	$21,800	NO	--	YES
NEW YORK, NY	ORIENTAL RUGS	$19,000	YES	YES	--
NEW YORK, NY	ORIENTAL RUGS	$48,700	YES	YES	--
NEW YORK, NY	ANTIQUES	$24,000	YES	YES	--
NEW YORK, NY	ANTIQUES	$41,600	YES	YES	--
SAN ANTONIO, TX	AUTOMOBILE	$43,445	YES	YES	--
SAN ANTONIO, TX	AUTOMOBILE	$30,500	YES	YES	--
SAN ANTONIO, TX	ANTIQUES	$13,531	YES	YES	--
SAN ANTONIO, TX	ANTIQUES	$17,468	YES	YES	--
SAN ANTONIO, TX	ORIENTAL RUGS	$27,000	YES	YES	YES
SAN ANTONIO, TX	ORIENTAL RUGS	$13,000	YES	YES	--
SAN ANTONIO, TX	JEWELRY	$11,526	YES	YES	--
SAN ANTONIO, TX	REAL ESTATE	$80,000	YES	YES	--
SAN ANTONIO, TX	REAL ESTATE	$24,750	YES	YES	--
WASHINGTON, DC	AUTOMOBILE	$18,618	YES	YES	YES
WASHINGTON, DC	AUTOMOBILE	$33,563	YES	YES	YES
WASHINGTON, DC	ANTIQUES	$14,500	YES	YES	--
WASHINGTON, DC	ANTIQUES	$15,000	YES	YES	YES
WASHINGTON, DC	ORIENTAL RUGS	$15,000	YES	YES	--
WASHINGTON, DC	ORIENTAL RUGS	$48,750	YES	YES	--
WASHINGTON, DC	REAL ESTATE	$150,000	YES	YES	--
WASHINGTON, DC	REAL ESTATE	$259,500	YES	YES	--
WASHINGTON, DC	JEWELRY	$33,920	YES	YES	--
WASHINGTON, DC	JEWELRY	$22,500	YES	YES	--

TOTAL CASH DOLLARS DISCUSSED	$4,237,448
(LESS DOLLARS FOR "NO" RESPONSES)	($74,610)
POTENTIAL DOLLARS LAUNDERED	$4,162,838

(--) Conversations with the individual(s) did not convey enough informaton to make a determination

DESCRIPTION OF ITEM

Condominium: Three-bedroom, 2 bath, cathedral windows, 7 skylights, garage, 1,362 square feet

Brochure: Yes Pictures: Yes

Price: $259,500

Nature of Business: Real Estate

Business Name:

Address: Washington, D.C.

Telephone:

Business Representative's Name:

Business Card: Yes

Yes - No - Unknown

Yes o Knowledge of IRS reporting requirement.

Yes o Willing to make cash transaction without reporting.

Yes o Knowledge of ways to avoid reporting the transaction.

Yes o Willing to record the purchase in a third person's or company's name.

Unk o Owner or manager agreed to go along with non-reporting.

On September 7, 1990, Jackson and Gomez visited Condominiums. There they met with Realtor from Realtors.

After entering the complex explained "I've never seen this listing. I guess we'll look at it together." He asked Jackson, "Are you new to the area?" Jackson responded that she was and Gomez explained, "We're in the process of relocating her to this area, hopefully for five to six years."

After inspecting the condominium Gomez asked, "What's the listing price for the unit?" responded, "It's listed at $259,500." Gomez explained, "I do plan to pay cash money for the unit. I assume the price could be reduced?" stated, "I'm sure it can, but I don't have a feel for the minimum price."

Gomez stated, "I assume we can deed the property in any name we choose." responded, "Sure, what name you put on the title is up to you."

Gomez said, "I do want to keep this purchase quiet. We don't want people knowing she's in the area just yet. Also, I'd like to keep the fact that I paid in cash quiet. Do you need to report the fact that I paid cash for the unit to anyone?" said, "It will be reported to the title company, but I can put you in contact with a title company that will handle a cash settlement."

Gomez stated, "Down in Atlanta we use attorneys for settlement, but as long as we can keep the cash quiet, it will be fine. Now I won't have to worry about that being reported right?" said, "You mean to the IRS?" Gomez responded, "Yes." said, "I don't see a problem, but I will have to check with the title company to make sure."

Gomez stated, "If you can find out about the reporting of the cash I'd appreciate it. I'll have contact you later today and just give her the information. If everything works out, I can have the money driven up from Atlanta by next week."

agreed with the arrangements, and Jackson and Gomez left the complex.

Later, Jackson telephoned to determine whether it was necessary to report the cash purchase. stated, "Look I have to report cash payments for the condo so, you should pay with cashier checks, notes, and money orders, that's how you can get around reporting. I've already found you an attorney who works with cash purchases and he is aware of your situation. I want you to work with him, his name and telephone number are ."

DESCRIPTION OF ITEM

English Gothic desk, Circa 1790-1820, originally priced at $18,000.

Brochure: No **Pictures:** No

Price: $15,000

Nature of Business: Antique Dealer

Business Name:

Address: Washington, DC

Telephone:

Business Representative's Name:

Business Card: Yes

Yes - No - Unknown

Unk o Knowledge of IRS reporting requirement.

Yes o Willing to make cash transaction without reporting.

Yes o Knowledge of ways to avoid reporting the transaction.

Yes o Willing to record the purchase in a third person's or company's name.

Yes o Owner or manager agreed to go along with non-reporting.

On September 10, 1990, Subcommittee members Gomez and Jackson visited Washington, DC. Gomez and Jackson looked through the store and found a English Gothic desk they liked for $18,000. The owner was not there to discuss the price and only a friend was watching the store so it was necessary to call the owner on Monday.

On Monday Jackson called , who identified himself as the owner of the store. stated his friend had mentioned that John Martinez and his wife were interested in the desk. Jackson asked "What type of discount could we get if we paid cash?" stated "You're in luck. I am moving to a new location and I have some pieces I need to sell so, I'll reduce the price to $15,000."

Jackson asked "Do you have to report the fact that I paid cash to anyone?" replied "No, it just so happens that this is one of the pieces I don't have on inventory for cash deals like this."

Jackson stated "Could I get a blank sales receipt?" said "Of Course". Jackson stated her husband was in a meeting, would be out of the at 1:00, and would call to arrange for the payment. stated "I am not charging you state sales tax since your home is in Atlanta, Georgia, even if you're taking the piece out of the store without shipping it."

DESCRIPTION OF ITEM

Men's 18K President Rolex, originally $12,250 and a Women's 18K President Rolex, cashed priced at $7,607.50.

Brochure: Yes Pictures: Yes

Price: $17,407.50

Nature of Business: Jewelers

Business Name:

Address: Atlanta, GA

Telephone:

Business Representative's Name:

Business Card: Yes

Yes -- No - Unknown

Yes o Knowledge of IRS reporting requirement.

Yes o Willing to make cash transaction without reporting.

Yes o Knowledge of ways to avoid reporting the transaction.

Yes o Willing to record the purchase in a third person's or company's name.

Yes o Owner or manager agreed to go along with non-reporting.

On August 23, 1990, Gomez and Jackson visited in Atlanta, GA. They entered the store and went over to the Rolex section. Salesman approached them and asked if they needed some assistance.

Gomez stated "It's my parents' 50th wedding anniversary and I'd like to buy my father a gold Rolex." responded that there were numerous selections. Jackson asked "Can we see the gold Rolex President watch?" provided the watch for inspection.

Jackson examined the watch and said, "I think your father will like this." Gomez said "I agree. I think he'll enjoy it."

Jackson then asked "Why don't you get a matching Rolex for your mother?" Gomez remarked "Well, I hadn't thought of a watch for her. But, now that you mention it, it's a great idea."

provided Jackson and Gomez with a Rolex women's President watch for examination. After inspecting the women's watch Gomez asked "How much can you reduce the price of the watches if I buy the two and pay in cash?" stated "The best price I can give you is $10,500 for the men's watch and $7,607.50 for the women's watch."

Gomez stated "That seems like a good price, but let me ask, do you have to report the fact that I paid in cash to anyone?" stated "Yes, I have to report any sale over $10,000 in cash to the IRS. As a matter of fact for the past six months IRS agents have been in our office reviewing our past cash sales transactions." stated "Let's talk a little quieter because we still have a couple of IRS people in the back looking at our records."

continued "There's an IRS form I have to fill out for any cash sale over $10,000." Gomez asked "Why do you have to report the cash?" stated "The IRS is trying to crack down on money laundering from drug dealers."

Gomez stated "I'm sorry, I can't buy the watches unless I pay cash, and I don't want my name associated with the purchase." stated "Let me go see what I can do maybe I can help you out."

then left and spoke with an unidentified male. When he returned he said "We don't have a problem with the women's Rolex because with the 15% discount it is only $7,607.50, and that's below the $10,000 reporting requirement." continued "The men's watch is a problem because with the 15% discount it's $10,500, still over the $10,000 reporting requirement. However, we could split the total purchase into two separate purchases."

stated "Wait right here, I'll go to the back and see if I can lower the price of the men's watch." returned and stated "Since you're buying two watches I'll give you 20% off the men's watch so that will lower it to $9,800." That way we'll avoid the IRS requirements." commented "You know it's not the spirit of the law, it's the letter of the law."

then said, "She could buy one of the watches and you could buy the other. If each of you bought a watch, it wouldn't be one sale."

Gomez asked "What information do you need for the sales invoice?" stated "Just give me a name, any name."

Gomez stated "I won't be in when comes in, but Carlos will come by with her and he'll have the money with him." said "Maybe he can help with the two separate purchases. She can pay for one and he can pay for the other."

Gomez agreed with the arrangements and he and Jackson left the establishment.

DESCRIPTION OF ITEM

Watches: Men's President Rolex watch with 44 brilliant diamonds ($14,136) and a women's Baume & Mercier watch with diamond dial ($8,740)

Brochure: Yes Pictures: Yes

Price: $23,014

Nature of Business: Jewelry

Business Name:

Address: Atlanta, Georgia

Telephone:

Business Representative's Name:

Business Card: Yes

Yes - No - Unknown

Yes o Knowledge of IRS reporting requirement.

Yes o Willing to make cash transaction without reporting.

Yes o Knowledge of ways to avoid reporting the transaction.

Unk o Willing to record the purchase in a third person's or company's name.

Yes o Owner or manager agreed to go along with non-reporting.

On August 23, 1990, Jackson and Gomez visited in Atlanta, Georgia. When they entered the business establishment they were met by a female who identified herself as

asked if she could be of assistance and Jackson said, "We're just browsing for now, thanks." said, "Well, if I can help just let me know."

Gomez and Jackson continued to look at the jewelry pieces on display. Jackson noticed a display counter containing "Rolex" and "Baume Mercier" watches. She and Gomez decided to select a men's Rolex and a women's Baume Mercier. Gomez then approached and said, "I think we're going to need your help now."

When arrived Jackson said, "I'd like to look at the Baume & Mercier with the diamond dial. stated, "It's a beautiful watch." then gave the watch to Jackson for inspection. Jackson placed the watch on her wrist and stated, "John I've been looking for a dress watch. I like the diamond dial on this one. It's very attractive." Gomez inspected the watch and said, "You're right, it is lovely."

Gomez turned to and asked, "What's the price of the watch?" looked at a tag on the watch band and said, "It's priced at $11,500, but I can offer a 15 percent reduction. Also, you can use our financing with no payments for ten months."

Jackson turned to Gomez and said, "I think you should look at the men's Rolex watches. You've always talked about buying one." Gomez looked at the Rolex watches and selected one with a "tiger wood dial." gave him the watch for his inspection.

Gomez stated, "It is a beautiful piece. What is the list price for this watch?" said, "It's listed at $12,450, but again there is a 15 percent deduction."

Jackson said, "John I like the gold President style. I'm not sure I like that dial." Jackson pointed to another watch in the display case and said, "Can we see that one." gave Gomez a gold President Rolex for inspection and said, "This is very nice, but we have one in the vault with 44 brilliant diamonds that's more beautiful." Gomez said, "I may want to see that in a minute."

After examining the Rolex, Jackson asked, "Can we see the President watch with the diamonds?" responded, "Yes." She then took the Baume & Mercier and the Rolex watches on the counter and placed them inside the display case. After locking the case she proceeded to a vault located behind the counter and returned with a men's President Rolex with 44 diamonds surrounding the dial.

Gomez examined the watch and said, "You're right this is nicer." Jackson looked at the watch and said, "I agree. It is beautiful."

Gomez asked , "What's the price of this watch?" responded, "It's priced at $18,600, but we will discount that price by 15 percent." Gomez asked, "Again what's the price of the Baume & Mercier watch?" responded, "That one's priced at $11,500, without the 15 percent discount."

Gomez stated, "I think we'll take both watches. I'd like to pay cash for them. Could they be discounted any further?"

said, "I'm not sure. Let me check with our manager." then proceeded to speak with an undentified male.

When she returned said, "If you buy both watches, we could give you the Rolex for $14,136 and the Baume Mercier for $8,740." Jackson responded, "That's a good price."

Gomez agreed with price and said, " , it will take a couple of days to come up with the money." He then turned to Jackson and said, "I think Carlos can have the money by Saturday. It will take him a couple of days to get it together." Gomez then turned to and said, "Before we buy them I need to know if you have to report the fact that I'm paying in cash to anyone." asked, "Are you speaking of a check?" Gomez said, "No. I'm speaking of money." said, "Just a minute."

turned and spoke to the male she previously identified as and said, "If he pays in cash do we have to report that to anyone?" responded, "Yes. Any cash over $10,000 has to be reported to the IRS, and he will have to complete a form and give his name and social security number."

looked at Gomez and rolled her eyes as if to indicate she couldn't understand why he said that.

Gomez said, "I don't understand." He then turned to Jackson and said, "I'm sorry, but I have to pay cash. I don't think there's any other way."

asked , "What if he pays with a credit card or a check?" responded, "Then there won't be a problem."

Gomez said, "I'm sorry, but I know Carlos, he won't pay with a credit card or a check. I'm afraid it has to be cash." asked, " , is there anything he can do? He wants to pay cash but he doesn't want it reported?" responded, "Look for the last 11 years I've had to fill out paperwork on cash sales. As a matter of fact every time I deposit over $10,000 in cash for the store I have to fill out paperwork at the bank. That's a definite. You'll have to fill out the paperwork if it's more than $10,000 in cash."

Gomez hesitated and said, "Well, I'm afraid I'm locked into paying cash. I'm sorry." Gomez then turned toward the store exit. quickly said, "Wait, there's a couple of things we might be able to do." She then turned to and asked, "What if he paid with a cashier's check?" said, "That would be okay. We don't report cashier's checks."

Gomez said, "Well I don't know. I don't know if Carlos is going to like that. He prefers to pay for things in cash." said, " what if he paid part in cash, say $9,999, and the remainder with a cashier's check? That would be okay wouldn't it?" said, "Yes, as long as the cash isn't over $10,000."

said, "Another thing you might be able to do is pay for the women's watch one day and then come in the next day and buy the men's watch." Gomez said, "Yes, but the men's watch is still over $10,000. Look, I'll have to talk to my friend and get back with you later."

said, "I'm sure we can do something, If you decide to buy them give me a call."

Gomez and Jackson then left the business establishment.

DESCRIPTION OF ITEM

1990 Honda Prelude SI with the ALB package. 2.05 liter, 140 horsepower twin-cam 16 valve engine, automatic, air conditioning, power sun roof, power windows, cruise control

Brochure: Yes Pictures: No

Price: $18,500

Nature of Business: Automobile

Business Name:

Address: Denver, Colorado

Telephone:

Business Representative's Name:

Business Card: Yes

Yes - No - Unknown

Yes o Knowledge of IRS reporting requirement.

Yes o Willing to make cash transaction without reporting.

Yes o Knowledge of ways to avoid reporting the transaction.

Yes o Willing to record the purchase in a third person's or company's name.

Yes o Owner or manager agreed to go along with non-reporting.

On August 14, 1990, Jackson and Gomez visited in Denver, Colorado. When they arrived at the business establishment, Jackson noticed a black 1990 Honda Prelude SI sitting on the sales lot priced at $19,500. After inspecting the vehicle, Jackson and Gomez entered the business establishment showroom where they were met by a male who identified himself as .

Gomez said, "We're interested in looking at the black 1990 Prelude Si you have in your lot." Gomez turned to Jackson and said, "Now that's the one you're interested in right?" Jackson said, "Yes, it's exactly what I've been looking for." said, "I'm not sure it's available, let me check." then entered an enclosed room where he spoke with another male. When he returned said, "It is available, let me get the keys." obtained the keys and Jackson and Gomez accompanied him to the sales lot. On the way to the vehicle, asked Jackson, "Would you like to test drive the vehicle?" Jackson said, "I've already driven one before, but this is the first black one I've seen."

After inspecting the vehicle in presence, Jackson opened the door and sat down in the car and said, "This is exactly what I've wanted." Gomez turned to and asked, "What's the asking price for the car?" looked at a sticker in the front window of the car and said, "It's been reduced to $18,500." Gomez asked about the sticker price for the car and said, "It's listed at $19,500, but it's been reduced to move it from the lot."

Gomez said, "If I paid cash for the car would this pose any particular problems?" said, "No, there wouldn't be any problems. Gomez asked, "Now, would you have to report the fact that I paid cash for the car to anyone?" looked at Gomez and asked, "Are we talking green cash, green backs?" Gomez said, "Yes." responded, "I'm afraid we have to report cash sales over, I believe $3,000, but I'm not sure of the amount." Gomez said, "You do? Who do you report this to?" said, "It's reported to the federal government." Gomez said, "I need to keep the sale as quiet as possible, especially the cash portion." said, "I'm afraid we have to comply with the reporting requirement. Maybe you can pay a portion in cash and finance the rest of the price." Gomez said, "No, I'm afraid I'm locked into paying cash for the car. Well listen, thanks for your time." said, "Let me talk to the manager to make sure of the regulation."

walked back into the showroom. Jackson and Gomez waited for a few minutes and then they entered the showroom. was speaking with another male. As Jackson and Gomez approached the unidentified male picked up the telephone. Gomez turned to and said, "I still have your key. Listen thanks again." pointed to the unidentified male and said, "Just a minute, he's checking with our finance officer to see if there are any alternatives to reporting the cash. For example, what you may be able to do is pay for the car in two payments on separate days. One day you could pay about $9,500 and then the next day pay the remaining balance."

Gomez asked, "What's the purpose behind reporting the cash?" said, "It has something to do with laundering of drug money, something about tracking the funds." Gomez asked, "How long has the requirement been in effect?" said, "About 4 years, I'm not sure." Gomez asked, "Is it a state requirement?" said, "No, it's a federal requirement."

The unidentified male completed his telephone conversation and said, "Anything over $10,000 must be reported. It can't be reported on two separate days because it's considered to be part of the same transaction. However, there may be a way around the requirement. Here's what you may want to do. You can pay $9,500 in cash, green backs, and get a bank cashier's check for the balance. That way you don't have to worry about the reporting requirement. But you have to stay under the $10,000 limit because then the bank will report it." Gomez asked, "Does that mean the cashier's check isn't considered as cash." said, "That's right, we don't have to report it as cash." Gomez asked, "Can they trace a cashier's check?" said, "No."

Gomez asked, "What about the sales invoice, what information do you need for that?" said, "You can register the car anyway you want. It's up to you." Gomez turned to Jackson and said, "If you can come in Thursday, the money will be ready then." Jackson said, "I'm free on Thursday. I can be here around one." Gomez turned to and said, "Listen, thanks. I appreciate your help with the arrangements."

Jackson and Gomez then left the establishment.

DESCRIPTION OF ITEM

French Cherry Wood Armoire, with iron hardware, - Normandy and Brittany.

Brochure: No **Pictures:** Yes

Price: $15,000

Nature of Business: Antique Dealer

Business Name:

Address:

Telephone: Denver, Colorado

Business Representative's Name:

Business Card: Yes

Yes - No - Unknown

Unk o Knowledge of IRS reporting requirement.

Yes o Willing to make cash transaction without reporting.

Unk o Knowledge of ways to avoid reporting the transaction.

Yes o Willing to record the purchase in a third person's or company's name.

Yes o Owner or manager agreed to go along with non-reporting.

On August 14, 1990, Gomez and Jackson visited in Denver, Co. Jackson selected a french armoire, with iron hardware, listed at $18,000 for purchase.

Gomez spoke with a male in the store who identified himself as , owner. Gomez stated "We're interested in purchasing a french armoire you have priced at $18,000. I'd like to pay cash for the item. Will that pose any particular problems?" responded "No problem at all. Cash purchases are fine with me. As a matter of fact a lot of my customers pay with cash."

Gomez asked, "What type of discount would I receive if I paid in cash?" replied "I could reduce the price from $18,000 to $15,000 since you're paying with cash." Gomez stated "I'd like to keep this transaction quiet so, I need to know if you have to report the cash sale." stated "No, I don't have to report the cash sale to anyone."

Gomez asked "What information do you need for the sale receipt?" stated "I'll just give you a blank receipt made out to cash so I don't need any information."

Gomez stated "I don't want the armoire shipped to my residence so I'll have Carlos and some of his men pick it up on Saturday. Carlos will bring the money at that time. Is that okay?" said "Sure that's fine."

provided a picture and business card for Gomez's records. Jackson and Gomez then left the business establishment.

DESRIPTION OF ITEM

Persian Kashan Rug, 8' x 12', Rug number 1075

Brochure: No Pictures: Yes

Price: $12,560

Nature of Business: Oriental Rug Dealer

Business Name:

Address: Minneapolis, MN

Telephone:

Business Representative's Name:

Business Card: Yes

Yes - No - Unknown

Unk Knowledge of IRS reporting requirement.

Yes Willing to make cash transaction without reporting.

Unk Knowledge of ways to avoid reporting the transaction.

Yes Willing to record the purchase in a third person's or company's name.

Yes Owner or manager agreed to go along with non-reporting.

On August 8, 1990, Gomez and Jackson visited in Minneapolis, MN. Once inside the store Jackson selected a Persian Kashan style rug priced at $15,700. A female approached them and identified herself as .

Jackson inspected the rug and decided it was the rug she was looking for. Gomez told sales representative , "I'd like to pay cash for the rug. Will this pose any particular problems?" stated "There's no problem with cash." Gomez asked "How much can the price be reduced if I pay cash?" said "I'll reduce the price by 20 percent."

Gomez said "I don't want my name on any paperwork, I assume that's okay?" replied " I don't care whose name you put it in, you could use anyone's, you know what I mean." Again Gomez stated he wanted to keep this cash purchase quiet and he did not want to have his name associated with the purchase.

Gomez asked about the required paperwork for a certificate of authenticity. replied "You can use anyone's name you want." Gomez turned to Jackson and said "Carlos will come with you. He'll have the money with him."

Gomez then turned to and said, "If I wanted to buy fifteen additional rugs in the $15,000 range, and paid in cash, would that pose any problem?" said, "No. We will have the rugs." Gomez stated, "Now I assume you won't have to report the fact that I paid in cash to anyone?" stated " No problem with cash, no, it won't be reported."

Upon exiting the store, Gomez asked if could appraise the rugs for insurance purposes. stated " I would appraise the rug for $16.000 or $20,000, or we could appraise it at any amount you would want."

Jackson and Gomez then left the establishment.

DESCRIPTION OF ITEM

19-- Corvette, 350 V8

Brochure: No   Pictures: Yes

Price: $23,000

Nature of Business: Automobile Sales

Business Name:

Address: Minneapolis, MN

Telephone:

Business Representative's Name:

Business Card: Yes

Yes - No - Unknown

Unk o Knowledge of IRS reporting requirement.

Yes o Willing to make cash transaction without reporting.

Unk o Knowledge of ways to avoid reporting the transaction.

Yes o Willing to record the purchase in a third person's or company's name.

Unk o Owner or manager agreed to go along with non-reporting.

On August 8, 1990, Jackson and Gomez visited in Minneapolis, Minnesota. When they entered the business establishment they noticed a 19-- maroon Corvette hardtop/convertible. After inspecting the automobile, they approached the only individual in the establishment, who identified himself as .

Gomez asked, "Was the Corvette restored here?" said, "No, but it was restored locally. Gomez said, "I've always wanted a Corvette. I noticed it's listed at $23,000, is it available?" said, "Yes, it is." then discussed the different features of the car. When he finished Gomez said, "I'd like it. I'll take it. I'd like to pay cash for it. Are there going to be any problems with me paying cash?" said, "No."

Gomez asked, "How about registering the vehicle? Do you have a clean title for the car?" said, "Yes. Are you going to register it in state?" Gomez said, "No." said, "I can give you a clean title. You can put any name on it you want." Gomez asked, "What about a sales invoice? Do you need any particular information for the invoice?" said, "Well I have to put a name down and a telephone number, but whatever name and phone number you give me is okay. You can even use Mickey Mouse." then shook Gomez's hand and said, "Mr. Mickey if you want to buy it there's no problem with it."

Gomez asked, "What about the cash? Are you going to report the transaction to anyone? said, "You know we work on a commission here. I take my commission out of the sales amount and give the remainder of the cash to the owner of the vehicle. What he does with the money and how he reports it is up to him. As far as I know he can even report it to the feds. But the only information he's going to have is our name you'll remain completely anonymous."

Gomez said, "I'll make arrangements for the cash." Gomez turned to Jackson and said, "Maybe Carlos can bring you by tomorrow. He'll have the cash with him." Gomez then turned to and said, "Will the car be ready by tomorrow?" said, "If you have the cash you can get it today." Gomez said, "It sounds good. Thanks."

Gomez and Jackson then left the establishment.

DESCRIPTION OF ITEM

Desk ($12,500) and Grandfather Clock ($12,500)

Brochure: No Pictures: Yes

Price: $23,000

Nature of Business: Antiques

Business Name:

Address: Indianapolis, Indiana

Telephone:

Business Representative's Name:

Business Card: Yes

Yes - No - Unknown

Yes o Knowledge of IRS reporting requirement.

Yes o Willing to make cash transaction without reporting.

Yes o Knowledge of ways to avoid reporting the transaction.

Yes o Willing to record the purchase in a third person's or company's name.

Yes o Owner or manager agreed to go along with non-reporting.

On August 21, 1990, Jackson and Gomez visited in Indianapolis, Indiana. When they entered the business establishment they were met by a male who identified himself as .

After introducing himself, asked, "What can I help you with? Is there anything you're particularly interested in?" Jackson responded, "We're looking for a country French 17th or 18th century armoire." said, "I'm afraid I don't have much in the way of country French 17th or 18th century armoires. But I have some."

Jackson and Gomez inspected the armoires in the establishment. However, they noticed that the prices only averaged $3,000 to

$4,000. When Jackson and Gomez prepared to leave, Jackson noticed an antique grandfather clock priced at $12,500.

Jackson said, "John this is a beautiful piece. I think it would go well in your business." Gomez looked at the clock and agreed with Jackson.

said, "This is one of our two finest pieces." Pointing to another item in the area, said "The other piece is that Desk priced at $12,500." Gomez looked at the desk and said, "That's fantastic. I don't think I've ever seen anything like it." Gomez continued to examine the desk and decided he should purchase the item. Meanwhile Jackson continued to examine the clock and decided it should also be purchased.

Gomez asked , "Are the prices firm for both pieces?" responded, "There is a little room for discussion but not much." Gomez stated, "I'd like to pay cash for the items. Would my paying cash reduce the price?" said, "If you'd like both pieces, I could cut a good price." Gomez asked, "What are we looking at for both items?" said, "I'll let you have both pieces for $23,000."

Gomez said, " , I need to know the answer to one question. If I do pay in cash, I need to know if you have to report the fact that I paid cash." said looked at Gomez, hesitated and said, "I know what you mean. But we don't have to report it." Gomez said, "That's the one big question that I have. It's a transaction that I want to keep quiet." looked at Gomez and said, "Yes, I know what you mean."

Gomez said, "What I'd like to do, if it's possible, is to get a blank invoice for both pieces." said, "Sure, we have a few customers who like to keep their purchases quiet. That's how we'll handle this."

Gomez said, "It will take a couple of days to get the cash together." Turning to Jackson he said, "I'll contact Carlos and have him make arrangements to get the money together." Gomez turned to and said, "I assume Saturday will be okay."

said, "Saturday will be fine. You won't have to worry about how we handle the cash. What we can do is for our records we'll show the sale as being made to an auction house or to another antique dealer so the sale won't be associated with you. That's how we'll handle it at this end so you won't have to worry about reporting the cash."

Gomez and Jackson then left the business establishment.

DESCRIPTION OF ITEM

Oriental rugs: one Persian Karman 11'10" x 8'11" ($10,800) and one Persian Iurn 13'6" x 6' ($11,000)

Brochure: No   Pictures: No

Price: $21,800

Nature of Business: Oriental Rugs

Business Name:

Address: Indianapolis, Indiana

Telephone:

Business Representative's Name:

Business Card: Yes

Yes - No - Unknown

Yes o Knowledge of IRS reporting requirement.

Yes o Willing to make cash transaction without reporting.

Yes o Knowledge of ways to avoid reporting the transaction.

Yes o Willing to record the purchase in a third person's or company's name.

Yes o Owner or manager agreed to go along with non-reporting.

On August 21, 1990, Jackson and Gomez visited in Indianapolis, Indiana . When they entered the business establishment they were greeted by a male who identified himself as .

asked what types of rugs the staff were interested in. Jackson said, "I'm looking for something with traditional blues and reds sized about 10' x 12'." then proceeded to show Jackson and Gomez various rugs.

After reviewing seven or eight rugs Jackson selected a Persian Iurn 13'6" x 6'rug stating, "I think that will be perfect for the study. The size is unusual, but I think it will fit in the small study." Gomez inspected the rug and asked , "What's this rug listed for?" reviewed a tag attached to the rug and said "It's listed at $13,500."

After reviewing a couple more rugs, said, "Let me ask my uncle to join us. He is going to a show in New York, perhaps he can bring back a rug for you." then approached another male and returned to Jackson and Gomez. said, "This is my uncle ."

After the introductions showed Jackson and Gomez a 11'10" x 8'11" Persian Karman rug. Jackson stated, "I like this one. The colors are just right for the dining room." Gomez inspected the rug and agreed with Jackson.

Gomez turned to and asked, "Are you the owner?" responded, "Yes." Gomez asked, "If I paid cash for the rugs, how much could you reduce the price?" hesitated for a moment and said, "If you pay in cash, I'll sell you the rugs for $21,000."

Gomez said, "There are a couple of things I need to know first. First, I'm concerned about paying cash, and I'm more concerned about having anyone find out that I paid for the rugs in cash. Do you have to report the fact that I paid in cash to anyone?" looked intently at Gomez and said, "I understand what you mean. No I don't have to report the cash to anyone."

Gomez said, " , I also need to know if I can get a blank receipt for the rugs. I'd like to keep the purchase quiet." said, "That won't be difficult at all. I won't need your name."

Gomez said, "It will take me a couple of days to get the money together." Gomez turned to Jackson and said, "Do you think you can get together with Carlos on Saturday? I'm sure he will have the money by then." Jackson said, "I'll be having lunch with Carlotta tomorrow and Carlos will be there. I'm sure I can meet him on Saturday."

lowered his voice and said, "You don't have to worry. We'll take care of the cash. What we'll do is make a couple cash deposits at $9,000 and the final at the difference. That way the bank won't have to report receiving cash of $10,000. If I were to deposit cash in amounts of $10,000 or more, the bank would have to report the deposits. But you don't have to worry about that. We'll handle it."

Gomez and Jackson then left the establishment.

DESCRIPTION OF ITEM

Porcelain Urn, hand painted scenes

Brochure: None Pictures: None

Price:	$15,000
Nature of Business:	Antiques
Business Name:	
Address:	Detroit, Michigan
Telephone:	
Business Representative's Name:	
Business Card: Yes	

Yes - No - Unknown

Yes o Knowledge of IRS reporting requirement.

Yes o Willing to make a cash transaction without reporting.

Yes o Knowledge of ways to avoid reporting the transaction.

Yes o Willing to record the purchase in a third person's or company's name.

Yes o Owner or manager agreed to go along with non-reporting.

On July 25, 1990, Gomez visited in Detroit, Michigan. When he entered the establishment, he was met by sales representative . Gomez stated that he desired to purchase a gift for a female friend. He further explained that the item should be unusual, personal in nature, and yet something reflecting intimacy. Finally, he explained that the item must be a suitable size for a large mantel.

After discussing the request, said, "About how much are you wanting to spend?" Gomez responded, "Somewhere between $12,000 and $15,000. She then showed Gomez a "Porcelain Urn." explained "This item was recently purchased by the store from an estate sale of a former customer. The urn is valued at $15,000."

After examining the urn, Gomez said, "I'd like to pay cash for the urn, but I also want to keep the transaction quiet." said "I understand and that shouldn't be a problem. However, the IRS does require us to report any cash transaction over $10,000. But I think we can work around it." Gomez said, I don't want my name associated with the item. Is it possible to register the sale in someone else's name?" said, "We can put any name you want on the sales invoice, your friend's, or a company name." After discussing the $15,000 price, agreed to sell the urn for $12,000. Gomez repeated "Now I do want to keep this transaction quiet." said "Just a minute let me talk to our accountant. I think we can work something out. She knows the tax rules."

Before left to speak with "the accountant," Gomez asked that the item be removed from the table for further inspection. The urn was approximately three feet tall and it set on a base about 18 inches wide. said, "I'll ask one of the store owners, , to take the urn down so you can examine it."

A male who identified himself as " " removed the urn from the table and briefly discussed its history. When returned, Gomez told , " and I agreed to a $12,000 price for the urn. However, I want to keep the transaction quiet and I'd prefer that my name not be associated with the purchase." said, "That's not a problem. All you need to do is make two payments. One payment of $9,500 one day and the remainder on the following day." said "If the payments are separated by a 24-hour period, they are not reported as one transaction." confirmed statement and, at this point, left.

Gomez told he would return the next day with money, and he asked, "Can I just bring in the $12,000 tomorrow instead of having to come in twice?" said, "That will be fine. I'll take care of it." Gomez asked if he could get an official appraisal and a photograph of the urn. said "I will get the appraisal certificate, list the urn's value at $15,000, and have a photograph ready by tomorrow.

Observing that attached to the urn was a tag which briefly explained its origination, Gomez asked for a reproduction of the tag for his records. reproduced the tag and gave Gomez a copy.

asked Gomez for his name and telephone number. Gomez asked why she needed the information, again explaining that he did not want his name identified with the transaction. said "I just want it in case I need to get ahold of you. I promise I won't give the information to anyone else." Gomez gave her the name "John Martinez" and a telephone number beginning with the area code 517.

DESCRIPTION OF ITEM

1989 Corvette convertible, 4-speed automatic, cast aluminum wheels, 5.7 liter (350 cubic in.) V8 with fuel injection. Charcoal black, air conditioning, AF/FM stereo with cassette tape player, power windows and door locks, leather interior, and tilt-telescopic steering wheel.

Brochure: Yes Pictures: No

Price: $28,000

Nature of Business: Automobile Dealer

Business Name:

Address: Boston, MA

Telephone:

Business Representative's Name:

Business Card: Yes

Yes - No - Unknown

Yes o Knowledge of IRS reporting requirement.

Yes o Willing to make cash transaction without reporting.

Yes o Knowledge of ways to avoid reporting the transaction.

Yes o Willing to record the purchase in a third person's or company's name.

Yes o Owner or manager agreed to go along with non-reporting.

On August 1, 1990, Jackson and Gomez visited in Boston, Massachusetts. When they entered the business establishment they were met by a male who identified himself as

Gomez stated, "We're interested in buying a Corvette convertible." said, "We don't have any Corvette convertibles available at this time, but I can show you a new 1990 which just arrived at the dealership." He led Gomez and

Jackson to a garage and showed them a 1990 black Corvette listed at $42,000. He said, "This is the only 1990 we have in stock. Unfortunately it was previously ordered for a customer. However, we do have a demonstrator 1989 convertible available. It's listed at $29,000. Maybe you would be interested in looking at that."

then showed Gomez and Jackson a charcoal black 1989 convertible with about 9,000 miles. explained that the car was used as a demonstrator model and had never been sold. After some discussion about the features of the car, he said, "The car is listed at $29,500, but I think the company would let it go for $28,000." Jackson said, "I do like this one. It's nice, and it has a nice color." Gomez told , "I guess this is the car. Look, I would like to pay cash for the car. Is that going to cause any problems?" said, "Cash would be okay." Gomez then asked, "You're not going to report this cash payment to anyone are you?" said, "Well we do have to report any amount of money over $10,000. I don't know where it goes, but I know there's a form we have to fill out." Gomez said, "I don't want my name associated with the payment." said, "Well we can register the car in anybody's name." Gomez said, "It's not just the registration, I don't want the cash reported to anyone." said, "I'm not sure how to get around that. We have a reporting requirement. It has something to do with money laundering, but what you can do is bring in a teller's check for the amount because teller's checks do not have to be reported." Gomez asked, "Are you speaking about a cashier's check?" said, "Yes." Gomez said, "Look, I'm locked into paying cash, I really don't have a choice." said, "Let me talk to the owner to see if he has any ideas."

left and spoke to another male. When he returned, he said, "I spoke with , one of the owners, here's what we can do. Your can bring the cash in, in payments of $8,000 one day, then $6,000 the next day until it's paid off." Gomez said, "I'd prefer not to do that. I would like to just bring in the $28,000 at once. I don't want to drive here everyday just to drop off some money." said, "I'm not sure. Let me talk to Mr. again to see what he says."

then returned to speak with the same male he had spoken to earlier. When he returned, said, "Here's what he said we can do. You can bring in $8,000. She can bring in $8,000 and maybe we can (he then pointed to employees in the dealership showroom and said) use them to handle the cash difference, or another $8,000. Something like that. That way we don't have to report it as one payment because it's different individuals giving us the cash." Gomez said, "Look, I'll give you the $28,000 in cash and you guys can decide what to do with it." said he should again speak with the owner. When he returned said, "That sounds okay, but I gave you the wrong price. Mr. said the price should be $28,500. I quoted you the wrong price." Gomez said, "Look, I don't want to argue over $500. You quoted a price of $28,000. If your boss wants to quibble over $500 on a $28,000 car. I'm not sure I want it. We'll think about it and call you later today. Gomez and Jackson then left the establishment.

DESCRIPTION OF ITEM

Matching Rolex watches. Men's and women's "President" Rolex

Brochure: No Pictures: Yes

Price: $16,000

Nature of Business: Jewelry

Business Name:

Address: Boston, Massachusetts

Telephone:

Business Representative's Name:

Business Card: Yes

Yes - No - Unknown

Unk o Knowledge of IRS reporting requirement.

Yes o Willing to make cash transaction without reporting.

Unk o Knowledge of ways to avoid reporting the transaction.

Yes o Willing to record the purchase in a third person's or company's name.

Unk o Owner or manager agreed to go along with non-reporting.

On July 31, 1990, Jackson and Gomez visited in Boston, Massachusetts. When they entered the business establishment a male behind the jewelry counter asked if he could help. Jackson stated, "We're interested in purchasing a Rolex."

The salesman identified himself as and asked, "Do you have a particular style in mind." Jackson indicated we were not sure and provided a binder containing material on the various styles of Rolex watches. Jackson selected a men's style Rolex called the "President" and inquired about the price. said, "That particular watch costs $11,700."

After examining the watch Gomez said, "Could we pay cash for the watch?" said, "Sure, that fine." Gomez said, "Look, I'd like to keep this sale as quiet as possible." said, "This isn't a problem. I don't know who your are, and what you want to do with the sales slip is up to you. As far as I know, you could be "wiseguy" I wouldn't know. Cash is fine."

Jackson asked, "Is there a discount if we paid cash?" said, "Yes, if you paid in cash I could let you have the watch for $9,150" Gomez asked about sales tax and said, "With sales tax the total will be $9,600."

Because the transaction was less than $10,000 after the cash discount, Jackson inquired about a matching women's Rolex? After a brief inspection of the woman's watch Gomez asked , "How much for the two of them?" said, "I'll let you have them both for $16,000." Gomez again asked, "Now that's $16,000 in cash right? There isn't going to be any problem that?" said, "What am I gonna have a problem with? Real money? If you pay cash that's fine." Gomez said, "I'll have a man named Carlos bring the money later today. How late will you be here?" said, "Until about 5 pm." Gomez said, "When Carlos arrives, just give the two watches to him. Okay?" said "Whatever you want?"

DESRIPTION OF THE ITEM

Fully equipped, pearl-colored Audi 100 automobile, with leather seats, rosewood panels, stereo.

Brochure: Yes Picture: Yes

Price: $30,500

Nature of Business: Automobile Dealership

Business Name:

Address: San Antonio, Texas

Telephone:

Business Representative's Name:

Business Card: Yes

Yes - No - Unknown

Yes	Knowledge of IRS reporting requirements
Yes	Willing to make a cash transaction without reporting
Unk	Knowledge of ways to avoid reporting the transaction
Yes	Willing to record the purchase in a third person's name or company name
Unk	Owner or manager agreed to go along with non-reporting

On August 15, 1990, Gomez and Jackson visited in San Antonio, Texas. Sales representative showed them a pearl-colored Audi 100 loaded with stereo, leather seats, and rosewood panels, priced at $33,500.

After inspecting the vehicle, Jackson stated, "This is the car I've been looking for. I really like it." Gomez turned to and said, "I will be paying cash for the car, what can we do about reducing the price?" went into the sales office to consider the deal and when he returned he stated "If you pay in cash the price could be reduced by $3,000."

Gomez stated "I'd like to keep this cash transaction quiet and not have it reported to anyone." replied "No, problem, remember we sell Porsches here." Jackson and Gomez took this to mean that Porsches cash sales may go unreported.

Gomez inquired as to what information the dealership needed for the invoice or sales receipt. replied "If you pay cash the only name on the invoice is ours and you can put anyone's name on the registration." Gomez said "We'll be bringing our own plates for the car. I assume that's okay." replied "That's even better."

Gomez indicated he and Jackson would be back in touch with within a couple of days. They then left the business establishment.

DESCRIPTION OF ITEM

Antique Tabriz Oriental Rug, 12'6" x 9'2", priced at $48,700.

Brochure: No Pictures: Yes

Price: $45,000 plus sales tax of $3,700, totalling $48,700.

Nature of Business: Oriental Rugs

Business Name:

Address: New York, NY

Telephone:

Business Representative's Name:

Business Card: Yes

Yes - No - Unknown

Unk o Knowledge of IRS reporting requirement.

Yes o Willing to make cash transaction without reporting.

Unk o Knowledge of ways to avoid reporting the transaction.

Yes o Willing to record the purchase in a third person's or company's name.

Yes o Owner or manager agreed to go along with non-reporting.

On August 27, 1990, Gomez and Jackson visited New York, NY. Gomez and Jackson entered the store and started browsing when a young saleswoman asked if she could help us. Jackson stated "We are looking for a Persian Tabriz rug, 9' by 12', in oriental red, green, and blue to use in our study." The saleswoman excused herself and returned with her boss and store owner, .

stated "I'll show you a few of my favorites." Gomez and Jackson viewed a few rugs and then selected a Tabriz 9' x 12' green and red rug priced at $45,000.
Gomez asked "What type of discount can I get if I pay cash?" stated "None, this is a good price. Because of the quality of the antique rugs our prices are comparable to other dealers."

Gomez stated "If I pay in cash, do you have to report the fact that I paid cash to anyone?" replied "Yes." Gomez asked "Who do you have to report the cash sale to?" stated "Well, for our own records I have to record the sale. Also, I must make a deposit." Gomez asked "What about my name? Do you report my name with your deposit?" said, "No, the deposit will be in my name only it won't have your name with it." Gomez stated "Do you have to use my name on the sales invoice, I'd like to keep it quiet?" stated "Your name won't be associated with the cash deposit or on the invoice if that's what you want."

stated "I'll bring my designer Tara by tomorrow to view the rug. And later in the day, Carlos will come by to pay cash for the rug."

As they were leaving Gomez stated "Now, I don't have to worry about the cash deposit, right?" said "Don't worry we'll take care of everything."

Gomez and Jackson then left the establishment.

Chairman **Pickle**. Let me say to the subcommittee and the Governmental agencies here, we just received the testimony from Mr. Gomez. The entire statement will be submitted to the Internal Revenue Service. We expect the IRS to use our investigative files in a manner that it deems appropriate but the entire record will be submitted to the IRS. The results of this investigation are appalling, and the IRS should have access to all the information gathered.

We will be interested in hearing what the IRS proposes to do about this or what they are doing about it. It is difficult to believe that jewelers, rug dealers, automobile sales people and antique dealers are so familiar and comfortable with transactions involving over $10,000 in cash. The broad and troublesome fact is that individuals are paying for luxury items with cash.

It is obvious that they do not want any records of the transaction on either side. This raises a clear assumption that there is something funny about this cash, and it probably never gets reported as income. In such cases, not only are the businesses guilty of violating the law, the person making the purchase is engaged in tax evasion or certainly an assumption would lead you to that conclusion.

Such activity is as much a part of the underground economy as drug dealing as far as the Tax Code is concerned. So this investigation to me simply means that there is a lot of business activity taking place for large sums of cash. That means a lot of income probably is going unreported.

We think emphasis should be put into cleaning up this area.

Mr. Gomez, I want to ask you or Ms. Jackson, when you went into these businesses, did they demand identification from you, did they want to know anything about your background, your business? Did they ask for any proof of your identity or ask why you wanted to deal in cash?

Ms. **Jackson**. Not one business asked for any form of identification, nor did they ask for a picture ID, first name, last name, Social Security number, or any other kind of identifying information.

Chairman **Pickle**. They just accepted the fact that you were there and had cash ostensibly and they did not go into any search of your background information?

Mr. **Gomez**. No, sir.

Chairman **Pickle**. It seems to me the response you got in nine cities is representative of practices taking place all across the country. Did you ever offer any cash?

Mr. **Gomez**. No, sir. We did not effect any transactions at all, but we firmly believe if we had the money in hand, we could have bought the items.

Chairman **Pickle**. You just offered to deliver the cash at a later date?

Mr. **Gomez**. Yes, sir.

Chairman **Pickle**. That was agreeable to the the businesses?

Mr. **Gomez**. Yes, sir.

Chairman **Pickle**. Mr. Schulze.

Mr. **Schulze**. How did you pick the establishments? How did you choose those areas?

Mr. **Gomez**. More often than not we went through the yellow pages. We looked for jewelers advertising Rolex watches. We looked for oriental rugs, automobile dealers, and particular antique stores selling 17th and 18th century furniture.

Mr. SCHULZE. You would go into cities like Atlanta and New York and go through the telephone book?

Ms. JACKSON. Yes, it was very random.

Mr. SCHULZE. You had no idea ahead of time that they might indulge in such transactions?

Ms. JACKSON. No, we had no such information.

Mr. SCHULZE. It was totally random. Just as you were walking down the street, I mean antique dealers usually congregate in one area. Did you just walk in a store and try that?

Ms. JACKSON. Yes, this happened several times.

Mr. SCHULZE. What would happen, do you remember specific cases?

Mr. GOMEZ. Some areas don't have the antique dealers all located in one area, but it was not difficult to walk two blocks to another shop and engage the dealer in conversation with the same result.

Mr. SCHULZE. Did you notice any geographic difference? In other words, was there more compliance in the South, North, East or West; or was it the same?

Mr. GOMEZ. We did not analyze it in terms of geographic compliance. The rate of 96 percent indicates people are willing to accept cash. It seemed to be everywhere.

Mr. SCHULZE. Did you find any particular business or line of business that was more willing to accept cash than others?

Mr. GOMEZ. There is a chart attached to our statement. It shows that 100 percent of the antique dealers, 100 percent of the galleries, 100 percent of the rug dealers, 100 percent of the real estate firms, 94 percent of the automobile dealers and 87 percent of the jewelry stores were willing to take cash.

Mr. SCHULZE. Well, I guess jewelry dealers have the best records.

Mr. GOMEZ. With the exception of the one in Atlanta.

Mr. SCHULZE. Did you follow through and make any actual purchases?

Mr. GOMEZ. No, sir. We did not.

Mr. SCHULZE. How were they left? Were any of these sales actually written up or could you categorize this as mainly conversation? That may be an important point. If you just stopped and casually chatted or did you reach the point where they would write the sale up, say for two oriental rugs and you said you would be back the next day to pay.

Mr. GOMEZ. In some instances we received invoices.

Ms. JACKSON. In most instances they put the price on the back of their business card. We would say it would take a couple of days to get the cash together, and that we would come back in a couple of days, such as Saturday, to exchange cash for the goods.

Chairman PICKLE. I assume you have a record of the business, the address of that business, a photograph of that business, or the store to identify the location.

Mr. GOMEZ. Yes, sir.

Chairman PICKLE. I assume you have the name of the salesman or the manager with whom you had conversation. Is that part of your record?

Mr. GOMEZ. Yes, sir. At each business establishment we obtained a business card from the representative we spoke with. On the back of the business card we asked them to write down the cash price they were willing to sell the item for. We took a photograph of the business establishment. At some rug dealers we had them take polaroids photographs of the carpets.

In others, we used our own camera and took photographs of some of the furniture and some of the automobiles.

Mr. SCHULZE. Mr. Gomez, were these people with whom you were discussing these items, do you believe they had criminal intent or do you think they were just over eager sales people?

Mr. GOMEZ. That depends. I hesitate because some of the individuals——

Mr. SCHULZE. I don't want you to answer too rapidly. It seems to me you dealt with them and apparently you did a lot of this, that you would get some sort of a read whether they really knew what the law was and they were just trying to circumvent it or whether they were really ignorant of the law. I realize ignorance of the law is no excuse but if they were truly ignorant I might be lenient from time to time, but I guess you would get a feel for whether these people were slick and had done this before and said we know the law and we know how to go around it.

I am asking for your opinion.

Mr. GOMEZ. It went both ways. Some knew the law and were willing to violate it. Others expressed no opinion of the law. We were concerned about that as well, so we began discussing with the individuals having the money brought up from Atlanta, having "Carlos" drive the money up to hint to them the cash was less than clean. We put that scenario into the conversation to see if they were still willing to go on with the transaction. It didn't seem to affect them.

Mr. DORGAN. If you would yield.

Mr. SCHULZE. Yes.

Mr. DORGAN. The first summary page shows 95 percent of the businesses were willing to take a false name on these cash transactions. It is very hard to ascribe ignorance of the law when 95 percent were willing to take false names for cash purchases.

Would you agree, Mr. Gomez?

Mr. GOMEZ. Yes, sir.

Mr. SCHULZE. Mr. Gomez, when you tried to go the extra mile to be sure they understood there was something funny about this money, did any of them reverse themselves at that point?

Ms. JACKSON. Not one.

Mr. SCHULZE. Is that right? That is amazing. So in your opinion were most of these people knowledgeable about what they were doing and really trying to circumvent the law?

Mr. GOMEZ. There were quite a few of them, sir.

Mr. SCHULZE. Thank you.

Chairman PICKLE. Mr. Anthony.

Mr. ANTHONY. Mr. Gomez, Ms. Jackson, how long a period of time did this undercover operation last?

Mr. GOMEZ. It lasted from July through September this year.

Mr. ANTHONY. The first thing that will happen by IRS if they contact these people, they say, I didn't say that, I don't remember seeing these people

I have here two of the books that you have put together. I would like to walk through a couple of the case examples with you so that the audience will clearly understand how detailed you went into doing this so that if the person says, "I didn't do it," we will be able to lay out photographs, sales cards, invoice slips and if we are forced to, we can get handwriting experts and we could prove beyond the reasonable doubt that these people had a criminal intent to take cash knowing that it was illegal and could care less because the wanted to profit from it.

They were willing to launder money, they didn't care if it was bank holdup money, drug money, illegal gambling money. They just by God didn't care, as long as it got out of your pocket into their pocket, that is all they cared about.

You went in to buy a Corvette, 1990, V-8, leather interior, air conditioned with a coupe top. Do you remember that one?

Mr. GOMEZ. Yes, sir.

Mr. ANTHONY. You end up with a Chevrolet GEO sales consultant's business card which you got directly from him?

Mr. GOMEZ. Yes, sir.

Mr. ANTHONY. It has his name on it.

Mr. GOMEZ. Yes.

Mr. ANTHONY. You have the name of the Chevrolet dealership with dates, names and your copy of the entire transaction including the sales price.

Mr. GOMEZ. Yes, sir.

Mr. ANTHONY. The only documentation that I fail to see in here that would just absolutely clearly show that they knew what was going on would be first of all the fact that you did not actually give them the cash so the transaction itself was not ultimately completed. That is probably the greatest flaw in our little undercover operation.

Second, you were not wired, were you?

Mr. GOMEZ. No, sir, we were not.

Mr. ANTHONY. How did you go about recalling for us in your testimony precisely what was said?

Mr. GOMEZ. After we exited the business establishment, we proceeded to our car where we had a dictaphone. We immediately recorded the comments we could remember. That evening the conversations were written up on a computer and saved.

Mr. ANTHONY. The two of you were always together?

Mr. GOMEZ. Yes.

Mr. ANTHONY. As good a recall as the two of you possibly could have dictated it into a machine to be recorded and transferred that into print, into a computer so it would be saved?

Mr. GOMEZ. Yes, sir.

Mr. ANTHONY. So as fresh a recall as you can have immediately after the transaction with photographs of antique pieces, photographs of the establishment, dates, people that you talked to and in many cases even invoices or sales slips.

Mr. Chairman, I would like to restate something I said in my opening statement. I said I was going to be curious about what the business community said when they testified. I am going to be a lot more curious to see what the Internal Revenue Service says. I think that this is the most shocking testimony that I have heard in my 12 years in the U.S. Congress.

Mr. Gomez and Ms. Jackson, I spent 10 years in the courtroom as a trial attorney prosecuting criminals. What makes me madder than anything, you could take a case to a jury and if you had somebody of low income who could not afford an attorney and had robbed one of these establishments of maybe $1,000, the owner would be on you night and day to give them the maximum penalty. It would be interesting to see if any of these businesses have been robbed or embezzled, to see what the owners did in terms of trying to punish those people.

Now you have the people who controlled the business just having a clear intent to grab the money for pure profit, with knowledge of the transaction and the law and they were willing to do it.

I think we will have to ask Ms. Reagan to change her slogan. It is going to have to be "just say no to cash."

I think this is the most serious indictment that I have ever seen in my 10 years as a prosecuting attorney and 12 years as Member of Congress on the business community that has a total, callous disregard for the law. We can pass all the laws we want, build all the prisons we want, hire all the police and judges we want, but until the people who are at the front line, who are offered this cash are willing to say no, just like those two jewelry store owners and that one automobile dealer said, what I want to do is see if they can be invited to the White House. They need to be given a Medal of Honor.

The others, I can promise you if I stay here another 12 years, I will bug the IRS to see what they do with these cases. If they fail to do something with them, Mr. Chairman, I think this committee ought to do something serious in that regard.

In front of me are two books, each individually documented and had we taken an extra step of completing the transaction making sure that the cash was actually transferred, every one of those businesses could have been hauled off to jail and slapped with a felony count and held for a very large bond.

I think the business community needs to understand that, because the next time we send these investigators out there, they may complete the transaction and they may well be hauled away in handcuffs before the afternoon is over if they try to help launder this money.

I don't think the business community has seen the last of this investigation.

I yield the balance of my time.

Chairman Pickle. I thank the gentleman.

Mr. McGrath.

Mr. McGrath. Thank you, Mr. Chairman.

Mr. Gomez, Ms. Jackson, let me congratulate you for a thorough analysis of this particular problem.

I am wondering whether or not you could articulate for us some of the more esoteric ways which businesses offer in order to avoid the reporting rules.

Mr. Gomez. There were basically four or five methods, one with cashier's checks less than $10,000. That seemed to be the main method.

Another method involved both cash and a cashier's check under 10,000.

One realtor offered notes as well as money orders to avoid the regulations.

Some suggested that we could come in and use installments, $9,000 one day, $9,000 the next, and $9,000 the next.

Others suggested, as the one automobile dealer did, that we give him money and he would then use the employees in the dealership and their names, assumingly for the remaining amount.

Mr. McGrath. Intriguing was the $250,000 payment for the condominium here in D.C., and under that kind of scenario, it would take about a month of payments every day, $9,000 payments every day in order to satisfy the sale price.

Was that the arrangement that you would have to perform had you gone through with the transaction?

Ms. Jackson. With that particular one, we were simply instructed to talk with a particular attorney, and we were told that the attorney was familiar with the fact that we wanted to pay cash and keep it totally quiet and not report it.

He didn't get much into the details of how we were going to do that, simply that this attorney would be able to help us keep the cash transaction quiet.

Mr. Gomez. This was the same individual who suggested cashier's checks, notes and money orders.

Mr. McGrath. Did you happen to call the attorney in question here?

Ms. Jackson. No, we did not.

Mr. McGrath. But the name, as you have indicated——

Ms. Jackson. Yes, his name and telephone number are in the file.

Mr. McGrath. Could you describe for me the nature of the 10 transactions that took place in New York and perhaps make a relevant comparison to other transactions in other cities.

I guess what I am asking is whether they are more inventive in New York than any other of the cities that you have investigated.

Mr. Gomez. There was nothing different in the conversations or the end results.

However, in New York City, one of the jewelers declined to go along with the cash transaction noting the IRS requirement. Also he was rather adamant about not violating that requirement.

Mr. McGrath. So there was nothing unusual about the transactions in New York other than the fact that you found somebody who was honest enough to turn it down.

Once again, I think I share the same kind of frustration that everybody has exhibited on the panel today, and as I said in my opening statement, this is truly just a matter of greed, and the extent to which we are going to follow up on this, I think, is going to be very, very significant, because certainly local governments are losing sales tax because of this.

We perhaps are losing excise tax because of this. There is a plethora of problems with these kinds of transactions and we sure want to get to the bottom of them.

Thank you, Mr. Chairman.

Chairman PICKLE. Mr. Shaw.

Mr. SHAW. Briefly, Mr. Chairman.

Mr. Gomez, Ms. Jackson, you must feel like paupers now going into Safeway and comparing the price of poultry and beef after looking at $20,000 jewelry and $15,000 rugs.

I would like to pursue the question Mr. McGrath had with regard to the lawyers and real estate agents here in Washington, D.C.

I think this is an area that should be pursued and I think that someone should pursue the case and actually maybe even go into the lawyer's office and try to figure out what is going on here, because those kinds of trails are very, very difficult to hide.

There may be something much larger here than simply not reporting a cash transaction.

The use of their trust accounts, both the lawyer and the realtor, and I think it might be very advantageous just to try to figure out exactly how this was going to be set up, how the title was going to be handled.

In the area of automobiles, I am very curious as to how the dealer would handle the actual title transaction—I believe in most States the dealer would have to have the title notarized which would mean that he was willfully signing a notarized document that he knew was false.

We should probably expand our investigation into that area to see exactly how they put these pieces together because we know that these transactions are going on.

In my State of Florida, I know they are going on all the time.

I am a little curious here as to—I would like to follow up on a line of questioning of prior members—the extent of knowledge that the business people had of the law and the law that they are violating.

We can fix the law by saying that cashier's checks, traveler's checks, money orders, other things that are readily negotiable would be the same as cash in these type of transactions particularly if you use multiple instruments in making the purchase and put the cash requirement on those type of instruments when they are given to you in addition to cash or in multiple form which would exceed the reporting limit.

I think we can work with that.

What percentage of the merchants that you dealt with had actual knowledge of the law and what percentage of them seem to be knowledgeable on how to get around the law and legally close a transaction by just the use of a series of cashier's checks?

Mr. GOMEZ. There were a total of 26 businesses who knew the regulations or provided us with sufficient information during our conversations to indicate that they knew the regulations.

Of those 26—and not necessarily of those 26—but there were 23 businesses who provided alternative ways to circumvent those regulations.

We didn't do an analysis on how many businesses knew the IRS regulations, nor did we develop percentages.

All I know is a total raw number of 26 businesses indicated that they had sufficient knowledge.

Chairman **Pickle**. Does that conclude your questioning?

Mr. **Shaw**. Yes, for this time.

Thank you, Mr. Chairman.

Chairman **Pickle**. Mr. Dorgan, do you wish to question?

Mr. **Dorgan**. Thank you, Mr. Chairman.

Mr. Gomez, let me go through the chart again with you because what I see here is really shameful.

Your report is excellent, but this on a random basis reads like an infection of greed, people willing and interested in making sales irrespective of the law regardless of the consequences.

You selected, I think, businesses from the Yellow Pages without targeting. You didn't come into a city and say, "Here are a couple of shady operations we are going to look at."

You selected seemingly at random in number of industries, certain businesses you went in and tried to do a cash transaction and in effect in 79 instances you tried to launder $4.1 million worth of money; is that right?

Mr. **Gomez**. Yes, sir.

Mr. **Dorgan**. In 95 percent of the cases, the business was willing to take a false name?

Mr. **Gomez**. Yes.

Mr. **Dorgan**. Twenty-five percent of the businesses were actually helping you suggesting ways to avoid the law, avoid compliance, and avoid reporting.

Mr. **Gomez**. Yes, sir.

Mr. **Dorgan**. And 96 percent of the businesses were willing to take cash without reporting.

So, 95 percent willing to take false names, and 96 percent willing to take cash without reporting, that is a pretty depressing report.

It suggests that what a number of us have talked about for a long while in the tax gap. The report that we have done that shows what is falling through the cracks that it may be even more serious than most of us understand.

The practice may be more widespread.

I recall a couple of years ago the President, sort of laughing at this suggestion of stronger IRS enforcement, said what we are trying to do is put an auditor in every kitchen.

That is not the issue. The issue is shutting down the fraud and asking those who are making money to pay taxes on the money they make.

I think you have done some sterling work for this subcommittee and I think for the IRS as well. The Treasury must develop public policy that begins to shut this sort of thing down.

Mr. Anthony held up the books that show a rather complete report on the businesses that you dealt with.

I was particularly interested in the real estate transaction Mr. McGrath talked about.

You did not apparently go to the attorney?

Ms. **Jackson**. No, we did not.

Mr. **Dorgan**. You had the attorney's name?

Ms. **Jackson**. Yes, we do.

Mr. **Dorgan**. It is interesting that you have a whole network here of people apparently motivated by greed, willing to take cash under most any circumstances and even willing to send you to the attorneys who will make that happen in seeming violation of the law.

Mr. Chairman, I hope that we can move aggressively on one of the better investigative reports I have seen since I have been on the committee. We need to take the steps that are necessary now to work with the Internal Revenue Service to hopefully get the kinds of resources that are necessary to enforce this area of the law and to send a message to the American business community that this Congress will not tolerate this kind of shameful report.

If people don't comply with the law, we must put muscle behind the enforcement mechanism to make sure they do and to pay the penalties for these who are not in compliance.

Chairman **Pickle**. Thank you, Mr. Dorgan.

Mr. Gomez and Ms. Jackson, we thank you for your testimony.

I am going to now turn to Mr. Thomas Arnold, a member of our staff, accompanied by Pat Heck and Chris Smith, also part of our staff to present testimony to us now on behalf of the staff.

I presume you are going to concentrate somewhat on the Rayful Edmond case in the Washington area.

If you would proceed with your testimony, I hope you might condense it as much as you can so we can talk to the IRS and Treasury.

STATEMENT OF THOMAS K. ARNOLD, ASSISTANT COUNSEL, SUBCOMMITTEE ON OVERSIGHT, COMMITTEE ON WAYS AND MEANS, ACCOMPANIED BY PATRICK G. HECK, PROFESSIONAL ASSISTANT; AND CHRISTOPHER SMITH, MINORITY ASSISTANT FOR INVESTIGATIONS

Mr. **Arnold**. Thank you, Mr. Chairman.

I would like to talk about three transactions in the Rayful Edmond case and the documentation relating to those transactions is attached to the back of my statement.

I will just refer to the attachments and describe them in brief detail.

First, I want to point out that these 3 were selected from 25 that we looked at.

Sixteen were a part of the trial record in the Rayful Edmond case here in Washington this spring.

We obtained documentation from the trial transcript. We talked to the merchants involved in the Washington area in those 16 transactions and identified an additional 9 transactions for a total of 25.

We selected three of those to discuss in the statement and attached documentation relating to them.

No form 8300s, according to the merchants themselves, were filed in any of the 25 transactions that we looked at.

In looking at the 25, we only identified 4 that would have required a form 8300 to be filed.

The rest of the transactions were structured in such a way as to not require filing.

One of the transactions that illustrates the structure most clearly is a 1988 Mercedes Benz 560 SEC purchased in Northern Virginia.

There are 10 cashier's checks in this transaction. The total purchase price of the Mercedes is $78,000; 10 cashier's checks, 1 personal check, and 2 cash payments.

The two cash payments total around $6,000, so there wouldn't be a reporting requirement because it is under $10,000.

The personal checks aren't covered, nor are the cashier's check.

Each cashier's check is under $10,000, so the Bank Secrecy Act would not require reporting by the banks either.

Six financial institutions were used to purchase the cashier's checks. Two of them were purchased on the same day, on June 7, 1988; two more were purchased on June 10, and four were purchased on July 1.

I would say it is fairly clear from looking at that, that it was intended that this transaction be structured to avoid reporting. There is no other way to explain why this would have developed this way.

Chairman PICKLE. Mr. Arnold, do you have a list of those transactions before you?

Mr. ARNOLD. I don't have the complete list of the 25 before me. The three that I am talking about are a 1988 Mercedes Benz 560 SEC.

Chairman PICKLE. I want to make part of the record the series of transactions so we will make that a part of the record.

[The following was subsequently received:]

ITEMS PURCHASED BY THE RAYFUL EDMOND ORGANIZATION

1988 Mercedes Benz 560 SEC

1987 Porsche 928 S-4

1988 Mercedes Benz 300 CE

1987 Range Rover

1988 Range Rover

1988 Range Rover

1988 Mercedes Benz 560 SL Convertible

1988 Audi 90

1987 Nissan 300 ZX (Turbo)

1987 Jaguar XJS

1988 Mercedes Benz 300 CE

1987 Mercedes Benz 560 SL

1988 Porsche 944

1986 Corvette

1987 Mercedes Benz 190 E

BMW (year & model unknown)

BMW (year & model unknown)

Porsche (year & model unknown)

Townhouse	14518 London Lane, Bowie, Maryland
Townhouse	251 Castleton Terrace, Upper Marlboro, Maryland
Single Family Home	12207 Kingsbrook Street Mitchellville, Maryland
Single Family Home	12200 Kingswell Street, Mitchellville, Maryland
Single Family Home	1009 Peconic Place, Upper Marlboro, Maryland
Swimming Pool	(for 12200 Kingswell Street address)
Rolex President Wristwatch	

Mr. ARNOLD. The next transaction I would like to look at for a moment is a 1988 Mercedes Benz 300 CE purchased from the same Mercedes Benz dealer.

This involved two cash payments from two different people, a week a part, one on July 14, 1988, and one on July 22.

One was for $9,000 and the other for a little over $6,000. The balance of the purchase price of the car being $51,000 was paid off in four $9,000 checks, two cashier's checks and two personal checks.

This transaction was not reported by this dealer, although it did involve cash of more than $10,000.

This was one of the structuring techniques that was recommended to Mr. Gomez and Ms. Jackson, although we don't think it is effective because it does involve cash of over $10,000, but it is coming from two different people and separated by a week. Apparently a number of businesses are under the misunderstanding that this does not require reporting.

The last transaction that I attached to my statement is for a 1987 Porsche 928 S-4. This was purchased from a Porsche dealer in Northern Virginia for a total purchase price of $66,000.

In this case, $52,000 was paid in cash and there was one cash payment of $30,000 on one day from one individual, so it is clear this one required reporting, yet no form 8300 was filed.

I would like to point out, too, briefly, as you made mention of the total number of form 8300s that have been filed to date, that being around 94,000 that have been filed in the last 6 years since this law was passed, only 1,286 have been filed in the entire State of Maryland and 1,268 in the entire State or Virginia.

Only 84 have ever been filed in the District of Columbia; 11 in 1988, 15 in 1989, and 3 so far in 1990 in the District.

That is the geographic area where Rayful Edmond has conducted business.

Chairman PICKLE. Are you talking about the form 8300?

Mr. ARNOLD. Yes, I am.

Chairman PICKLE. You said that in the District of Columbia so far this year, only 3 or 4 8300s have been filed?

Mr. ARNOLD. Only three.

Chairman PICKLE. In all of the Washington, D.C. area?

Mr. ARNOLD. In Washington, D.C., itself, only three.

Chairman PICKLE. And if you were to consider Maryland or Virginia——

Mr. ARNOLD. If you include Maryland and Northern Virginia, there is a larger number that filed this year.

Chairman PICKLE. How many in Virginia?

Mr. ARNOLD. This year, 200 so far this year in Virginia, Mr. Chairman.

Chairman PICKLE. What about in Maryland

Mr. ARNOLD. In Maryland so far this year, 209.

Chairman PICKLE. But three in the District of Columbia?

Mr. ARNOLD. Three in the District of Columbia.

Chairman PICKLE. Go ahead.

Mr. ARNOLD. In looking at the Rayful Edmond transactions, we saw the same structuring techniques that were recommended to Mr. Gomez. He was not able to complete those transactions as was pointed out, but in this case, the transactions were completed and these same structuring techniques that were used, and there were at least four transactions in the ones that we look at where no structuring was used, just raw cash was given to the dealers involved, but yet no form 8300s were filed.

Looking at this case indicates to us that if the transactions had been completed, we would have had the same results.

That concludes my statement and I would be happy to answer any questions that you might have.

Chairman PICKLE. I thank you.

[The prepared statement follows:]

STATEMENT OF THOMAS K. ARNOLD

Good Morning, Mr. Chairman. It is a pleasure to be here today to discuss with you and the Members of the Subcommittee the results of the Subcommittee staff investigation on Federal enforcement of Internal Revenue Code section 6050I and other related money laundering statutes. With me this morning are Patrick Heck and Chris Smith who assisted in the staff investigation.

Background:

Section 6050I was enacted as part of the Deficit Reduction Act of 1984. In general, it requires a person, engaged in a trade or business, who receives more that $10,000 in cash in one or more related transactions, to report the transaction to the Internal Revenue Service. The business must file a Form 8300 with the IRS within 15 days after receiving the cash. The form must include the name, address, social security number, and occupation of the person who paid in cash, and, if applicable, the person for whom the buyer was purchasing the item. The business must also indicate the method used to verify the identity of the person paying in cash.

The filing requirement applies to all transactions involving the same person within a 24-hour period, and related transactions over a period of time (such as installment agreements) when the amount received by the business first exceeds $10,000. As will be seen below, one of the largest loopholes in the statute is that the filing requirement only applies to transactions that involve more than $10,000 in coin or currency, and does not include transactions using a combination of cashier's checks or money orders.

Both criminal and civil penalties are applicable where there is a violation of section 6050I for failure to file a Form 8300, failure to include the required information, or inclusion of incorrect information. In general, failure to file results in a fifty dollar penalty for each return not filed with a maximum penalty of $250,000. The penalty is reduced where the taxpayer corrects the violation within 30 days, or by August 1st. Intentional disregard of the filing requirements results in a $100 penalty per return or, if greater, 10 percent of the aggregate amount of items to be reported.

In addition to the civil penalties, a person who willfully fails to comply with 6050I, shall be guilty of a misdemeanor and, if convicted, fined not more than $25,000 and/or imprisoned for not more than 5 years. For corporations, the penalty is increased to not more than $100,000. The Committee on Ways and Means recently approved a provision for inclusion in the Crime Control Act of 1990, which would increase the level of the criminal offense to a felony.

In the Anti-Drug Act of 1988, section 6050I was amended to provide for the imposition of penalties where a person causes or attempts to cause a business not to file a return or to file a return that contains a material omission or misstatement, or structures any transaction with one or more businesses. These amendments also impose penalties on persons engaged in business who causes a customer to structure a transaction to avoid reporting.

Businesses which are likely to receive large sums of cash in a single transaction include automobile dealers, jewelers, furriers, antique dealers, art dealers, oriental rug dealers, realtors, boat dealers, aircraft dealers, attorneys, and other service providers. These and other businesses have filed only 95,000 Form 8300s since the statute was enacted in 1984. Of the total, almost half were filed by automobile dealers; 6,000 by attorneys; and, another 6,000 by jewelers and dealers of collectibles. By contrast, over 7 million currency transaction reports (CTRs) were filed by banks and other financial institutions when they received $10,000 or more in cash.

In the Washington D.C. metropolitan area, for example, there are approximately 350 automobile dealers, 54,000 attorneys, and 72 jewelers, according to the staff's best estimates. Although we do not know how many Form 8300s have been filed by those specific businesses, we do know that only 1,268 Form 8300s have ever been filed by businesses in the entire State of Virginia, 1,268 by businesses in Maryland, and only 84 by businesses in the District of Columbia. Moreover, in the District, only 11 Form 8300s were filed in 1988, 15 in 1989, and 3 in 1990.

U.S. v. Rayful Edmond:

The trial records in the recent case of the U.S. v. Rayful Edmond provides useful insight into the methods used by drug dealers when purchasing items in cash, and compliance problems with Internal Revenue Code section 6050I. The United States Attorney for the District of Columbia has successfully prosecuted Edmond and twenty-nine other members of his gang for drug dealing and other related crimes. According to prosecutors, Edmond's drug business was one of the most successful in the Washington D.C. area, earning millions of dollars in profits. At its peak, in 1987 and 1988, it is said that Edmond's drug enterprise made as much as $300 million a year. A portion of those profits was spent to support his and his co-conspirators' lavish life-styles right here in the Washington D.C. metropolitan area.

We investigated this case because we knew that Edmond had collected huge sums of cash and suspected that he had paid cash for the luxury automobiles, jewelry and lavish clothing he had purchased. Further, we doubted that the merchants involved had filed Form 8300s for all or any of the cash transactions. We set out to learn how he made the purchases, how much cash was involved, whether the merchants filed Form 8300s, and what structuring schemes were used to avoid Form 8300 filings.

At the trial, the United States Attorney's office introduced evidence relating to sixteen transactions involving over $10,000. The staff interviewed the merchants involved in those transactions and discovered nine more. These twenty-five transactions included five houses, a swimming pool for one of the houses, a diamond-studded Rolex watch, six Mercedes Benzs, three Porsches, two BMWs, three Range Rovers, a Jaguar XJS, a Nissan 300 ZX, a Corvette, and an Audi 90.

Most of these transactions involved multiple cashier's checks totalling more that $10,000 which are not required to be reported under current law; four involved payments of more than $10,000 in currency. According to representatives of the businesses involved, no Form 8300s were filed for any of the twenty-five transactions including the four that involved large sums of cash.

In one case, a Porsche dealer in Northern Virginia received $52,000 in cash and $13,000 in cashier's checks for a Porsche 928 S-4. An associate of Rayful Edmond's, Joe Reed, initially placed a cash deposit on the Porsche of $5,000 on July 24, 1987. This was the third automobile that Joe Reed had purchased from the same salesman. The two previous automobiles were BMWs purchased from that salesman when he worked at a different dealership in Montgomery County, Maryland. On July 27, 1987, Reed brought in another $30,000 in cash and on July 29, 1987 he brought in $5,880 in cash and two cashier's checks. One of the cashier's checks was drawn on United National Bank for $3,350. The other was drawn on the First National Bank of Maryland for $9,000. Finally, Reed paid another $10,996 in cash. In spite of the fact that this transaction clearly required reporting, no Form 8300 was filed.

In another transaction, Toni Blount Reynolds and Alta Rae Zanville, later the prosecutor's star witness against Edmond, purchased a Mercedes Benz 560 SEC from a Mercedes dealer in

Northern Virginia. This transaction was structured in such a way as to not require reporting. It involved ten cashier's checks, one personal check and two cash payments. The cashier's checks totalled $70,500, the personal check was for $1,000, and the two cash payments totalled $6,617.

The payments for this Mercedes were received over a period of a month from June 7, 1988 to July 7, 1988. The personal check was the initial deposit. The ten cashier's checks and the two cash payments followed. Three of the cashier's checks were drawn on the HEW Federal Credit Union on June 7 and June 8 for $4,000, $5,500, and $9,500. Two of the cashier's checks were drawn on Madison National Bank on July 1 for $5,000 and $8,000. One of these was purchased by Zanville and the other by Reynolds. Two more of the cashier's checks were drawn on National Capitol Bank on July 1 for $5,000 each. The other three cashier's checks were drawn on First American Bank, First National Bank of Maryland, and United Bank and Trust Company of Maryland on June 9 and 10 each for $9,500.

Anyone looking at this transaction could see that Zanville and Reynolds wanted to avoid reporting. There is no other reason why they would have used so many cashier's checks. Some were even purchased from the same bank on the same day but by two different people. Others were purchased on the same day but at different banks. The only person, other then Zanville and Reynolds themselves, who could see this clear intent to avoid reporting was the Mercedes dealer. However, under current law no Form 8300 was required and, in fact, according to the dealer, none was filed.

In another transaction, a Mercedes Benz 300 CE was purchased in the name of another associate of Edmond's, Bernice Daniels, from the same Northern Virginia Mercedes Benz dealer. Alta Rae Zanville made an initial deposit of $9,000 in cash on the Mercedes on July 14, 1988. Bernice Daniels paid the balance on July 22 with two cashier's checks for $9,000 each, two personal checks for $9,000 each, and $6,072 cash. The cashier's checks were purchased by Columbus Daniels and C'Artis Brawner, one from Sovran Bank and the other from Citizens Bank. The personal checks were drawn on Maryland National Bank and Chevy Chase Federal Savings Bank. The total purchase price was $51,072. Again, the transaction was structured to avoid reporting requirements although it would appear that a Form 8300 should have been filed because more than $10,000 in cash was received by the dealer in this one transaction.

According to court records, this Mercedes was purchased by Edmond, in Bernice Daniels' name, for Columbus "Little Nut" Daniels as payment for the murder of rival drug dealer Brandon Terrell. Terrell had reneged on a drug debt to Edmond and had encroached on Edmond's territory. Little Nut shot Terrell six times in front of the Chapter III nightclub in Southeast D.C. on June 23, 1988. Bernice Daniels sold the Mercedes to a Mercedes dealer in Prince George's County, Maryland five months later after it had been driven only 118 miles.

Conclusion:

Based on our review of these transactions, it is clear that while a few may have been ignorant of the law, the merchants who dealt with Rayful Edmond and his gang had little or no regard for the reporting requirements established by Internal Revenue Code 6050I. Edmond had no problem buying what he wanted in cash with no reports of the transactions going to the IRS.

Joint Committee on Taxation
September 17, 1990
JCX-26-90

EXPLANATION OF CODE SECTION 6050I (RETURNS RELATING TO CASH RECEIVED IN TRADE OR BUSINESS)

Scheduled for a Hearing Before the Subcommittee
on Oversight of the House Committee on Ways
and Means on September 20, 1990

A person engaged in a trade or business who receives, in the course of the trade or business, more than $10,000 in cash or foreign currency in one or more related transactions must report it to the Internal Revenue Service (IRS) and provide a statement to the payor. This reporting requirement was added in 1984 because Congress believed that reporting on the spending of large amounts of cash would enable the IRS to identify taxpayers with large cash incomes that might otherwise be underreported.

Reporting is required whether or not consideration is returned for the cash and whether or not the cash is received for the recipient's own account or for the account of another (with narrow exceptions provided by IRS regulations). For example, if a title company receives more than $10,000 in cash from the purchaser of real estate as his downpayment, the title company must generally report the receipt of that cash, even though it receives the cash on behalf of the seller.

For purposes of the reporting requirement, only currency is treated as cash--not checks, traveller's checks, drafts, money orders, or other cash equivalents. A transaction subject to reporting is any receipt of cash including receipt in connection with the purchase of goods or services, the purchase or exchange of property, the opening of a deposit or credit account, or any similar transaction.

The recipient of the cash is required to report the name, address and taxpayer identification number of the payor, the amount of cash received, the date and nature of the transaction, and such other information as the Secretary may require. In addition to furnishing reports on each cash transaction to the IRS, the recipient of the cash must furnish each payor an annual statement aggregating the amounts of cash received from him. This statement must be furnished on or before January 31 of the year following the year of the reportable event.

Any taxpayer subject to this provision who receives more than $10,000 in cash in one or more related transactions is required to report those transactions. For example, assume that an individual purchases a $8,000 item and a $1,500 item at an auction. The auction house adds a 10-percent buyer's premium and a 5-percent local sales tax. The taxpayer pays his $10,972.50 bill in cash. The auction house must report on that transaction.' The auction house could not avoid the reporting requirement by presenting two separate bills of $9,240 and $1,732.50.

Reporting is not required on payments (1) that are received in a transaction reported under the Bank Secrecy Act if the Secretary of the Treasury determines that the report under this provision would duplicate the report under the Bank Secrecy Act, or (2) that are received by certain specified financial institutions within the meaning of the Bank Secrecy Act.

The penalty for failure to file required reports with the IRS and to furnish statements to taxpayers is similar to that imposed on failures to make other information reports and statements. Thus, the penalty is $50 per failure, subject to a maximum of $250,000 for any calendar year. The penalty is not applicable if the failure is due to reasonable cause and not to willful neglect. If, however, the failure to file required reports with the IRS is due to intentional disregard of the filing requirements, the penalty is 10 percent of the aggregate amount of the items required to be reported and the $250,000 limitation does not apply. In addition, under Code section 7203, any willful violation related to the filing of returns relating to cash receipts of more than $10,000 received in the course of conducting a trade or business is, upon conviction, punishable by a fine or imprisonment not to exceed 5 years or both. Similar civil and criminal penalties apply to persons who, for the purpose of evading the return requirement, cause or attempt to cause a trade or business to fail to file, or to file falsely, a required return.

Form **8300**
(Rev. January 1990)
Department of the Treasury
Internal Revenue Service

Report of Cash Payments Over $10,000 Received in a Trade or Business

Failure to file this form or filing a false form may result in imprisonment.
▶ See instructions on back.
Please type or print.

OMB No. 1545-0892
Expires 10-31-92

1 Check appropriate boxes if: a ☐ amends prior report; b ☐ suspicious transaction.

Part I Identity of Individual From Whom the Cash Was Received

2 If more than one individual is involved, see instructions and check here . . . . . ▶ ☐

3 Last name	4 First name	5 Middle initial	6 Social security number
7 Address (number and street)		8 Occupation, profession, or business	
9 City	10 State	11 ZIP code	12 Country (if not U.S.)	13 Date of birth (see instructions)

14 Method used to verify identity: a Describe identification ▶
b Issued by c Number

Part II Person (See Definitions) on Whose Behalf This Transaction Was Conducted

15 If this transaction was conducted on behalf of more than one person, see instructions and check here . ▶ ☐

16 This person is an: ☐ individual or ☐ organization | 17 If funded by another party, see instructions and check here ▶ ☐

18 Individual's last name or Organization's name	19 First name	20 Middle initial	21 Social security number
22 Alien identification: a Describe identification ▶ b Issued by c Number			Employer identification number
23 Address (number and street)		24 Occupation, profession, or business	
25 City	26 State	27 ZIP code	28 Country (if not U.S.)	29 Date of birth (see instructions)

Part III Description of Transaction and Method of Payment

30a ☐ personal property purchased
b ☐ real property purchased
c ☐ personal services provided
d ☐ business services provided
e ☐ intangible property purchased
f ☐ debt obligations paid
g ☐ exchange of cash
h ☐ escrow or trust funds
i ☐ other (specify) ▶

31 Specific description of property or service purchased. Give serial or registration number of car, boat, airplane, etc., address of real estate, etc.

32 Total price $ .00 | 33 Amount of cash received $ .00 | 34 Amount in $100 bills or larger $ .00

35 If part of an installment sale, give information below and check box . . . . ▶ ☐ | 36 Date of transaction
a Number of payments ______ b Amount of each payment $ ______ .00
c Frequency: ☐ monthly ☐ other (describe) d Balloon payment (amount) $ .00

37 ☐ Paid with U.S. currency ☐ Paid with foreign currency (country) Amount (U.S. dollar equivalent) $ .00

Part IV Business Reporting This Transaction

38 Name of reporting business			39 Employer identification number
40 Street address where transaction occurred			Social security number
41 City	42 State	43 ZIP code	44 Nature of your business

45 Under penalties of perjury, I declare that to the best of my knowledge the information I have furnished above is true, correct, and complete.

Sign Here

(Authorized signature–See instructions) (Title) (Date signed) (Telephone number)

Paperwork Reduction Act Notice.—The requested information is useful in criminal, tax, and regulatory investigations, for instance by directing the Federal Government's attention to unusual or questionable transactions. Trades or businesses are required to provide the information under 26 U.S.C. 6050I.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is 18 minutes. If you have comments concerning the accuracy of this time estimate or suggestions for making this form more simple, you can write to the **Internal Revenue Service,** Washington, DC 20224, Attention: IRS Reports Clearance Officer T:FP; or the **Office of Management and Budget,** Paperwork Reduction Project (1545-0892), Washington, DC 20503.

General Instructions

Who Must File.—Each person engaged in a trade or business who, in the course of such trade or business, receives more than $10,000 in cash in one transaction or two or more related transactions must file Form 8300. Any transactions conducted between a payer (or its agent) and the recipient in a 24-hour period are related transactions and must be aggregated and reported as a single transaction if the total amount exceeds $10,000. Also, a transaction is related even though it occurs during a period of more than 24 hours if the recipient knows, or has reason to know, that each transaction is one of a series of connected transactions. In addition, this form may voluntarily be filed for any suspicious transaction, even if it does not exceed $10,000.

Multiple Payments.—How and when you must report receipt of cash deposits, cash installment payments, or other similar payments or prepayments depend upon the dollar amounts of the initial and subsequent payments.

If the initial payment exceeds $10,000, it must be reported within 15 days. If the initial payment does not exceed $10,000, the recipient must add together the initial payment and subsequent payments made within one year until the total exceeds $10,000, at which time the report must be filed within 15 days. If subsequent payments, singly or in the aggregate, received within any one-year period exceed $10,000, they must be reported separately within 15 days of the date they exceed $10,000 if they have not been previously reported. (If two or more separately reportable payments are received less than 15 days apart, they may be filed on a single report. In this case, the report is due within 15 days of receipt of the first payment.) If subsequent payments, singly or in the aggregate, received within one year do not exceed $10,000, they need not be reported.

Exceptions.—Section 1.6050I-1 of the Treasury Regulations provides for exceptions to the reporting requirements, including:

(1) Financial institutions required to file **Form 4789,** Currency Transaction Report, are exempted from filing Form 8300 for the same transaction.

(2) Casinos required to file (or excepted from filing) **Form 8362** are exempted from filing Form 8300 for the same transaction. However, nongaming businesses (such as shops, restaurants, and hotels) at the casinos must report on Form 8300 receipt of cash in excess of $10,000.

(3) Cash received by a person other than in the person's trade or business is not reportable.

(4) Cash transactions that occur entirely outside the United States are generally exempt from the reporting requirements. The United States includes the 50 states and the District of Columbia. However, if any part of the transaction occurs in Puerto Rico, or a possession or territory of the United States, and the recipient is subject to the general jurisdiction of the IRS under the Internal Revenue Code, the transaction must be reported by the recipient.

(5) An agent who: (a) receives cash from a principal, (b) uses all of the cash within 15 days in a cash transaction that is reportable on Form 8300 or 4789, and (c) discloses all of the information necessary to complete Part II of Form 8300 to the recipient of the cash in the second transaction does not have to file Form 8300 for the initial receipt of the cash.

When and Where To File.—File this form by the 15th day after the date of the transaction with the Internal Revenue Service, Detroit Computing Center, P.O. Box 32621, Detroit, MI 48232, or with your local IRS office. Keep a copy of each Form 8300 for 5 years from the date you file it.

Penalties.—Civil and criminal penalties including up to 5 years imprisonment are provided for failure (or causing the failure) to file a report, for filing (or causing the filing) of a false or fraudulent report, and for structuring a transaction.

Statement To Be Provided.—A written statement must be provided to each person named in this form on or before January 31 of the year following the calendar year in which this report is made. The statement must show the name and address of the business, the total amount of reportable cash received, and that the information was furnished to the IRS. Keep a copy for your records.

Specific Instructions

Item 1.—If you are reporting a suspicious transaction (see *Definitions*), check Box 1b. For a suspicious transaction, you are also encouraged to telephone the local Internal Revenue Service Criminal Investigation Division. If you do not know the number, please call toll-free 1-800-BSA-CTRS.

Part I.—This part must always be completed.

Item 2.—Check the box if two or more individuals conducted the transaction you are reporting. Enter identifying information in Part I for one of the individuals. Provide information on the other individual(s) on additional sheets of paper and attach them to this report.

Item 6.—Enter the social security number of the individual named in Part I. If the individual has no number, enter "None."

Item 8.—In identifying the occupation, profession, or business of the individual named in Part I, use fully descriptive terms such as plumber, attorney, etc., and not nondescriptive terms such as merchant, businessman, self-employed, etc.

Item 13.—Enter six numerals for the date of birth of the individual named in Part I. For example, if the individual's birth date was July 6, 1960, enter 07 06 60.

Item 14.—You must verify the name and address of the individual identified in Part I. Verification must be made by examination of a document normally acceptable as a means of identification when cashing checks (for example, a driver's license, passport, or other official document). In Item 14a, enter the type of document used to verify the identification. In Item 14b, identify the issuer of that document. In Item 14c, enter the document's number. For example, if the individual has a Utah driver's license, enter "driver's license" in Item 14a, "Utah" in Item 14b, and its number in Item 14c.

Part II.—If the individual in Part I is conducting the transaction for himself or herself only, do not complete Part II. In all other cases, complete Part II.

Item 15.—If the transaction is being conducted on behalf of more than one person (e.g., 2 persons are jointly purchasing a vehicle), check the box and complete Part II on any one of the persons. Provide the same information requested in Part II on the other person(s) on additional sheets of paper and attach them to this report.

Item 16.—If the person identified in Part II is an individual, check the "individual" box. For any person other than an individual, check the "organization" box. Check both boxes if the transaction is on behalf of both an individual and an organization.

Item 17.—Check the box if any of the cash received is from a party or parties not identified in Part I or II. Provide the same information requested in Part II on that party or parties on additional sheets of paper and attach them to this report.

Items 18, 19, and 20.—If the person on whose behalf the transaction was conducted was an individual, put his or her last name in Item 18, first name in Item 19, and middle initial in Item 20. If the person is an organization, put its name in Item 18 and leave Items 19 and 20 blank.

Item 21.—If the person is an individual, enter his or her social security number; if not an individual, enter its employer identification number. If the person does not have a social security or employer identification number, enter "None."

Item 22.—If the person is an alien without a social security number, complete this item. Enter a general description of the type of official document issued to that person in Item 22a (e.g., "passport"), the country that issued the document in Item 22b, and the document's number in Item 22c.

Item 29.—Refer to Item 13.

Part III.—This part must always be completed.

Item 30.—Check the appropriate box(es) that describe the transaction. If the transaction is not specified in Boxes a – h, check Box i and briefly describe it (e.g., car lease).

Items 32, 33, and 34.—Provide the total price of the goods purchased, services provided, amount of cash exchanged, etc. (e.g., the total cost of a vehicle purchased, cost of catering service, exchange of currency) in Item 32. Enter the total amount of cash received reportable on this return (see *Multiple Payments* for reporting requirements) in Item 33 and the amount of $100 (and larger) bills in Item 34. Show only nearest dollar amounts. Round 50 cents or more to the next whole dollar.

Item 35.—If the transaction is part of an installment sale, check the box. In Item 35a, enter the number of payments agreed upon; in Item 35b, enter the amount of each installment payment; in Item 35c, check the "monthly" box if the payments are to be made monthly, or the "other" box if the payments are made at any other intervals and describe the intervals (e.g., weekly, semi-annually, etc.). If the installments are for different amounts, attach a schedule.

Item 36.—If the aggregate amount of cash received in two or more installment payments exceeds $10,000, enter the payment date that causes the aggregate amount to exceed $10,000. Also, see *Multiple Payments*.

Item 37.—Check the appropriate box(es). If foreign currency is used, provide the country of issuance and the amount (in U.S. dollar equivalent) in the spaces provided. If currency of more than one foreign country is used, enter the information required by Item 37 on an additional sheet of paper and attach it to this report.

Part IV.—This part must always be completed.

Item 39.—Enter the employer identification number (EIN) of the reporting business. Enter the owner's social security number only if the business has no EIN.

Item 44.—Describe the nature of the business filing the report. Use descriptive terms (auto dealer, jewelry dealer) rather than nondescriptive terms (business, store).

Item 45.—This report must be signed by an authorized individual. Also type or print the name of the signer below the signature.

Definitions

Person.—An individual, corporation, partnership, trust or estate, joint stock company, association, syndicate, joint venture, or other unincorporated organization or group, and all entities treated as legal personalities, including organizations that are exempt from tax.

Cash.—The coin and currency of the United States or of any other country, which circulate in and are customarily used and accepted as money in the country in which issued. It includes United States notes and Federal Reserve notes, but does not include bank checks or drafts, travelers checks, wire transfers, or other negotiable or monetary instruments not customarily accepted as money.

Suspicious Transaction.—A transaction in which it appears that a person is attempting to cause this report not to be filed or a false or incomplete report to be filed; or where there is an indication of possible illegal activity.

Transaction.—It includes (but is not limited to) the purchase of goods, services, personal or real property, and intangible property by a customer, a debt obligation paid for with cash, the receipt and conversion of cash to a negotiable instrument (e.g., a receipt of cash from a person in exchange for a check), and the receipt of cash to be held in escrow or trust.

☆U.S. Government Printing Office: [illegible]

DATE: [illegible]　　[illegible] FILINGS BY STATE FOR YEARS 1985 TO 1990　　PAGE. [illegible]

STATE	1985	1986	1987	1988	1989	1990	TOTAL
ALABAMA	73	86	114	104	141	80	598
ALASKA	42	31	46	68	72	31	290
ARIZONA	117	92	136	150	191	112	798
ARKANSAS	27	31	35	87	99	49	328
CALIFORNIA	2.062	1.896	2.447	4.887	4.144	2.308	17.744
COLORADO	72	54	68	98	136	61	489
CONNECTICUT	44	84	63	91	105	487	874
DELAWARE	15	17	29	29	24	17	131
DISTRICT OF COLUMBIA	15	15	25	11	15	3	84
FLORIDA	1.703	2.071	2.108	2.315	2,511	1.577	12.285
GEORGIA	159	191	202	264	300	176	1.292
GUAM	0	0	0	1	3	1	5
HAWAII	18	59	79	106	103	66	431
IDAHO	130	58	26	75	27	31	347
ILLINOIS	214	244	297	452	448	285	1.940
INDIANA	102	86	114	108	254	132	796
IOWA	62	46	48	66	54	27	303
KANSAS	28	13	20	24	56	34	175
KENTUCKY	51	62	66	95	95	52	421
LOUISIANA	92	108	167	299	383	235	1.284
MAINE	13	34	69	66	36	16	234
MARYLAND	134	151	178	274	340	209	1.286
MASSACHUSETTS	108	155	185	234	270	131	1.083
MICHIGAN	257	335	372	360	578	515	2.417
MINNESOTA	26	51	67	74	82	48	348
MISSISSIPPI	31	45	45	87	90	60	358
MISSOURI	67	475	754	474	1,084	689	3,543
MONTANA	12	15	19	9	19	15	89
NEBRASKA	1	7	13	22	30	23	96
NEVADA	97	111	147	200	259	91	905
NEW HAMPSHIRE	28	19	60	54	53	41	255
NEW JERSEY	708	967	950	944	986	546	5.101
NEW MEXICO	24	28	29	63	45	39	228
NEW YORK	1.028	2.131	2.647	3.204	3.765	1.636	14.411
NORTH CAROLINA	193	276	256	282	327	169	1.503
NORTH DAKOTA	5	1	2	3	25	5	41
OHIO	161	245	344	385	489	249	1.873
OKLAHOMA	36	49	55	55	82	53	330
OREGON	94	137	94	116	109	75	625
PENNSYLVANIA	355	455	502	679	929	455	3.375
PUERTO RICO	29	24	171	123	115	66	528
RHODE ISLAND	8	13	30	95	22	18	186
SOUTH CAROLINA	76	98	83	102	152	83	594
SOUTH DAKOTA	9	10	8	6	8	5	46
TENNESSEE	152	175	191	168	264	142	1.092
TEXAS	745	814	1.239	2.448	2.480	1.447	9.173
UNABLE TO DETERMINE	73	60	46	41	51	49	320
US MISC. PACIFIC ISL	0	0	0	0	2	1	3
UTAH	9	20	10	11	27	30	107
VERMONT	8	1	8	10	42	9	78
VIRGIN ISLANDS	0	0	1	5	5	5	16
VIRGINIA	106	169	213	250	330	200	1.268
WASHINGTON	83	111	153	286	257	132	1.022
WEST VIRGINIA	30	48	38	58	62	45	281
WISCONSIN	56	99	93	113	155	82	598
WYOMING	6	9	8	8	9	13	53
TOTAL:	9.804	12.580	15.160	20.639	22.740	13.156	94.079

DATE: 06 05 90 FILER (PART 4) OCCUPATIONS PAGE: 1

OCCUPATION CATEGORY	NUMBER	< 10.000	10-15.000	15-20.000	20-35.000	35-50.000	50-100.000	> 100.000
AIRCRAFT/BOATS	1.038	16	326	178	240	90	98	90
AUTO SERVICES	546	19	250	118	107	20	25	7
BANKS/CREDIT UNIONS/S&L	1,944	53	1.548	198	110	20	11	4
BAR/LOUNGE	24	0	7	6	8	2	1	0
BONDING	469	31	121	82	137	25	41	32
BUILDING/CONTRUCTION	557	22	199	104	131	25	51	25
CHECK CASHERS	30	4	11	5	7	3	0	0
COMMUNICATIONS	33	4	9	8	4	5	3	0
CREDIT FINANCING	1.553	26	724	266	285	84	79	89
CURRENCY EXCHANGE	73	7	33	10	9	3	1	10
DELIVERY SERVICE	2	0	1	1	0	0	0	0
EDUCATION	22	0	15	2	1	1	2	1
ENTERTAINMENT	88	1	44	12	17	4	6	4
EXPORT/IMPORT	1.980	74	548	348	531	207	221	51
FOOD PRODUCTS	5.837	31	2.700	1,406	1,215	242	206	37
FOOD STORES	637	8	522	48	28	14	16	1
FOREIGN BANKS	2	0	0	2	0	0	0	0
GAMBLING	247	2	97	45	69	19	11	4
GAS/OIL	2,479	11	517	333	645	251	389	333
GOVERNMENT	180	3	94	22	35	9	11	6
HOTEL	112	1	27	25	36	10	9	4
INDIVIDUALS	270	2	35	22	98	13	28	76
INSURANCE	549	17	187	107	155	29	40	14
INVESTMENTS	891	22	195	93	251	92	185	53
JEWELRY/COLLECTIBLES	5,784	68	1,409	545	1,040	716	886	1.120
LAWYERS	6,180	850	1,872	1,110	1,493	383	328	144
LIQUOR	275	0	95	45	64	16	45	10
MANUFACTURING	487	9	180	99	110	51	26	12
MEDICAL	146	3	76	25	31	2	7	2
NON PROFIT	41	1	11	10	5	6	3	5
NOT AVAILABLE	8,098	365	4,088	1,671	1,305	200	257	212
OTHER	837	56	303	151	212	56	35	24
REAL ESTATE	1,683	43	655	332	393	120	110	30
RESALE	927	6	394	180	207	51	62	27
RESTUARANTS	31	0	11	7	3	2	5	3
RETAIL SALES	2,590	22	916	519	617	170	198	148
SCRAP	2,308	14	210	97	291	205	457	1.034
SEAFOOD	19	0	11	3	5	0	0	0
SERVICES	500	6	171	80	119	53	63	8
SHIPPING	155	11	59	28	26	12	14	5
TRANSPORTATION	92	0	49	12	19	6	3	3
TRAVEL	62	5	34	10	8	0	5	0
UTILITIES	32	1	16	3	6	2	4	0
VEHICLE SALES	43.145	834	27,351	9.388	4.714	541	246	71
WHOLESALERS	1.116	2	367	239	300	77	110	21
WIRE TR/MONEY ORDERS	8	0	6	1	1	0	0	0
TOTAL:	94,073	2.650	46.494	17.996	15,086	3.837	4.298	3.712

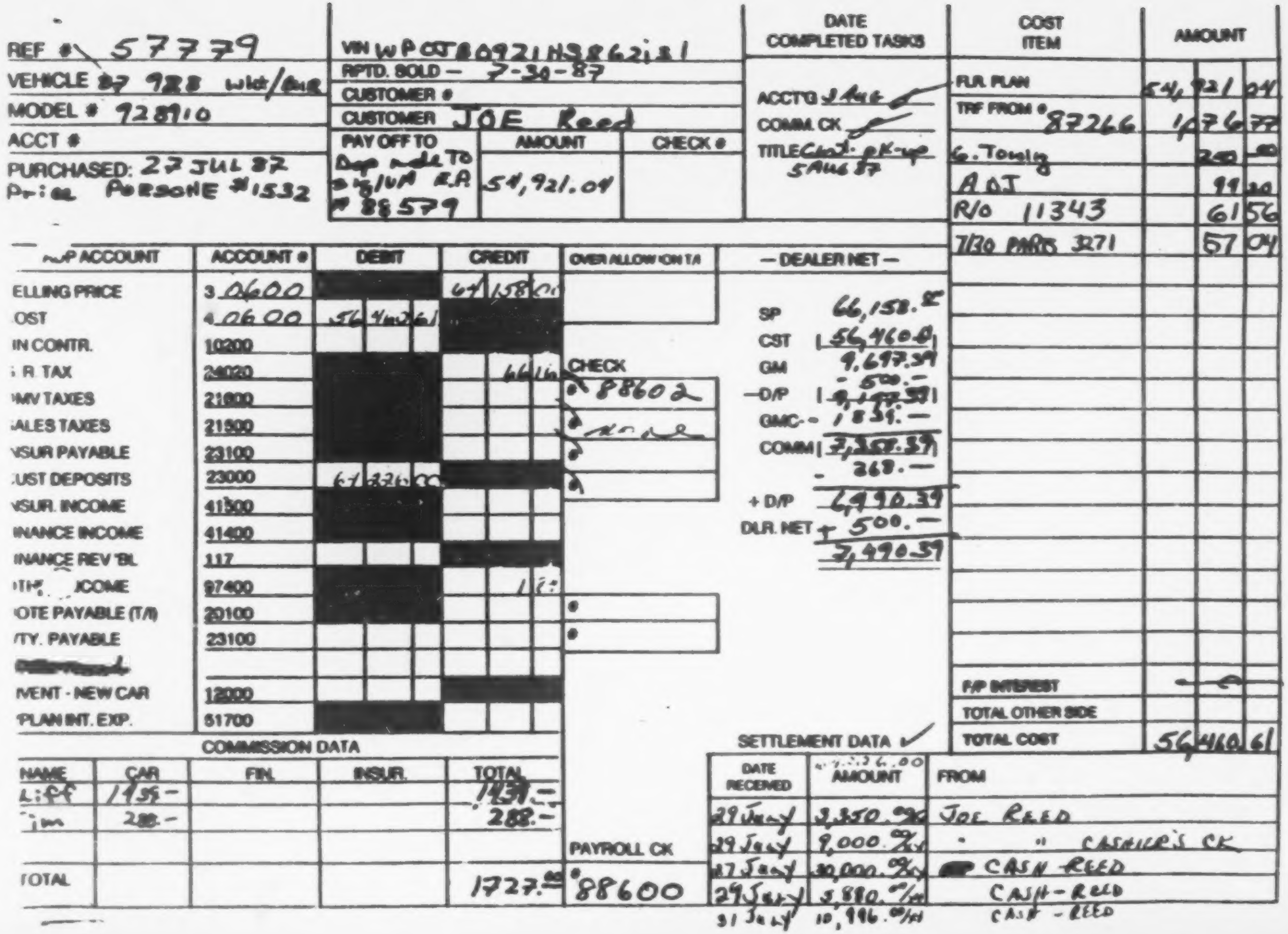
DATE: 08/08/90 OWNER (PART 2) OCCUPATIONS PAGE

OCCUPATION CATEGORY	NUMBER	< 10.000	10-15.000	15-20.000	20-35.000	35-50.000	50-100.000	> 100.000
AIRCRAFT/BOATS	122	1	38	15	27	16	12	13
AUTO SERVICES	243	1	135	50	37	11	6	3
BANKS/CREDIT UNIONS/SAL	45	1	24	9	7	2	0	2
BAR/LOUNGE	26	1	11	7	5	1	1	0
BONDING	23	0	9	1	8	1	3	1
BUILDING/CONTRUCTION	313	14	134	60	65	19	18	3
CHECK CASHERS	13	1	3	4	3	2	0	0
COMMUNICATIONS	24	0	8	7	4	3	2	0
CREDIT FINANCING	34	0	13	8	9	2	2	0
CURRENCY EXCHANGE	115	0	16	12	26	18	24	19
DELIVERY SERVICE	2	0	2	0	0	0	0	0
EDUCATION	15	1	5	2	5	1	1	0
ENTERTAINMENT	125	2	36	30	35	9	10	3
EXPORT/IMPORT	433	14	103	78	102	44	43	49
FOOD PRODUCTS	606	12	173	92	118	81	102	28
FOOD STORES	321	3	153	74	62	14	12	3
GAMBLING	20	0	8	1	4	4	2	1
GAS/OIL	110	13	28	15	27	7	8	12
GOVERNMENT	113	4	45	25	18	10	9	2
HOTEL	19	0	5	4	9	0	1	0
INDIVIDUALS	1.089	32	530	208	209	53	34	23
INSURANCE	32	6	7	5	2	6	3	3
INVESTMENTS	117	4	26	20	43	8	9	7
JEWELRY/COLLECTIBLES	1.283	38	228	83	226	129	189	390
LAWYERS	132	6	45	35	27	7	9	3
LIQUOR	108	0	58	30	13	2	4	1
MANUFACTURING	258	3	64	31	54	18	25	63
MEDICAL	58	4	28	8	9	3	6	0
NON PROFIT	54	0	28	5	13	5	1	2
NOT AVAILABLE	10.942	462	4.442	1.862	2.158	612	708	698
OTHER	474	12	208	96	97	33	18	10
REAL ESTATE	129	3	44	25	27	8	19	5
RESALE	134	1	48	23	47	10	4	1
RESTUARANTS	153	2	77	38	24	3	7	2
RETAIL SALES	826	54	260	131	201	62	85	33
SCRAP	715	10	37	19	143	76	222	208
SEAFOOD	25	1	14	5	3	1	0	1
SERVICES	156	1	72	29	33	9	6	6
SHIPPING	132	8	55	26	26	6	7	4
SOFT DRINKS	1	0	1	0	0	0	0	0
TRANSPORTATION	121	4	46	20	21	11	9	10
TRAVEL	19	0	12	2	3	1	0	1
UTILITIES	60	2	18	10	5	7	17	1
VEHICLE SALES	5.919	80	3.863	1.196	654	74	36	16
WHOLESALERS	115	1	51	30	24	7	2	0
TOTAL:	25.774	802	11.211	4.431	4.633	1.394	[illegible]	[illegible]

1987 Porsche 928 S-4

Date Received By Dealer		Method of Payment	
7-24-87	$ 5,000	Cash	(Joe Reed)
7-27-87	$30,000	Cash	(Joe Reed)
7-29-87	$ 5,880	Cash	(Joe Reed)
7-29-87	$ 3,350	Cashier's Check	(Joe Reed/United National Bank/purchased 7-29-87)
7-29-87	$ 9,000	Cashier's Check	(1st National Bank of Maryland)
7-31-87	$10,996	Cash	(Joe Reed)
	$ 2,000	(method unknown)[*]	
	$66,226		

[*] Records indicate an additional payment was made but they are unclear on the amount or method of payment. It is assumed the outstanding balance of $2,000 was paid before the Porsche was received on August 5, 1987.



REF # 57779
VEHICLE 87 928 wht/Bur
MODEL # 928910
ACCT #
PURCHASED: 27 JUL 87
Prior PORSCHE #1532

VIN WP0JB0921HS862181
RPTD. SOLD – 7-30-87
CUSTOMER #
CUSTOMER JOE Reed

PAY OFF TO	AMOUNT	CHECK #
Dep made To [illegible] E.A # 88579	54,921.04	

DATE COMPLETED TASKS
ACCT'G 2 Aug ✓
COMM. CK ✓
TITLE Cust. pk-up 5 Aug 87

COST ITEM	AMOUNT
FLR. PLAN	54,921.04
TRF FROM # 87266	1,676.77
G. Towing	250.00
ADJ	99.20
R/O 11343	61.56
7/30 PARTS 3271	57.04
F/P INTEREST	–0–
TOTAL OTHER SIDE	
TOTAL COST	56,460.61

P ACCOUNT	ACCOUNT #	DEBIT	CREDIT	OVER ALLOW ON T/A
ELLING PRICE	3 0600		64 158 00	
OST	4 0600	56 460 61		
IN CONTR.	10200			
R. TAX	24020		[illegible]	CHECK
MV TAXES	21800			# 88602
ALES TAXES	21500			# none
NSUR PAYABLE	23100			#
UST DEPOSITS	23000	61 226 00		#
NSUR. INCOME	41300			
INANCE INCOME	41400			
INANCE REV'BL	117			
OTH. INCOME	97400		[illegible]	
OTE PAYABLE (T/A)	20100			#
TY. PAYABLE	23100			#
[redacted]				
VENT - NEW CAR	12000			
PLAN INT. EXP.	51700			

— DEALER NET —
SP 66,158.⁰⁰
CST |56,460.61|
GM 9,697.39
- 500.—
—D/P |9,197.39|
GMC - 1,839.—
COMM |7,358.39|
- 368.—
+ D/P 6,990.39
DLR. NET + 500.—
7,490.39

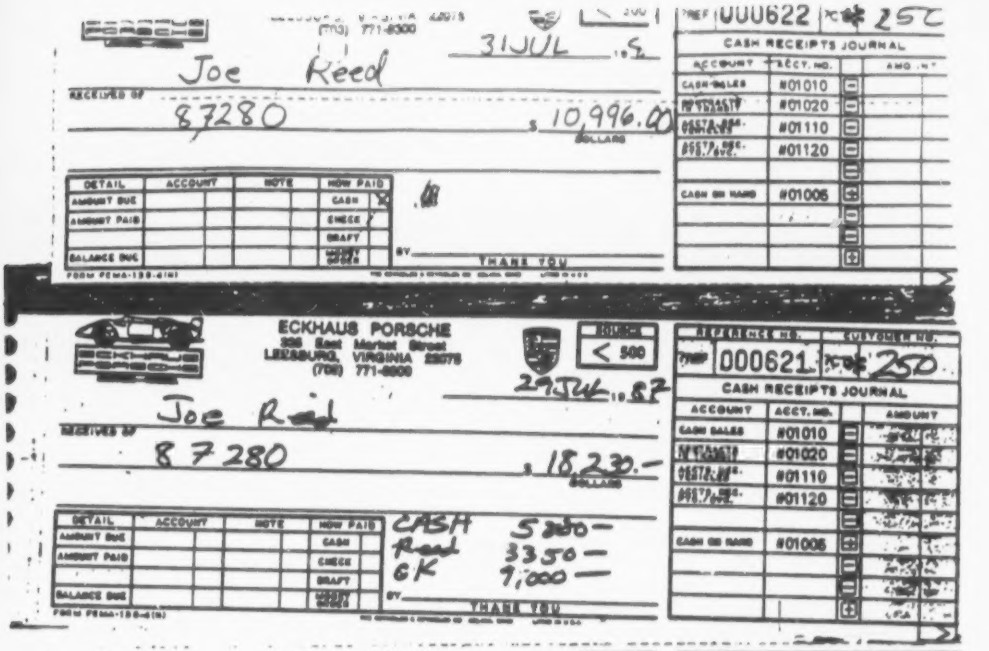
COMMISSION DATA

NAME	CAR	FIN.	INSUR.	TOTAL
Liff	1439.–			1439.–
Jim	288.–			288.–
TOTAL				1727.⁰⁰

PAYROLL CK
88600

SETTLEMENT DATA ✓

DATE RECEIVED	AMOUNT	FROM
	[illegible]	
29 July	3,350.96	Joe Reed
29 July	9,000.⁰⁰/xx	" " Cashier's CK
27 July	30,000.⁰⁰/xx	Cash Reed
29 July	5,880.⁰⁰/xx	Cash-Reed
31 July	10,996.⁰⁰/xx	Cash - Reed



(703) 771-8300

REF	000622
C#	250

31JUL 19

RECEIVED OF Joe Reed

87280 $ 10,996.00 DOLLARS

DETAIL	ACCOUNT	NOTE	HOW PAID	
AMOUNT DUE			CASH	☒
AMOUNT PAID			CHECK	
			DRAFT	
BALANCE DUE			MONEY ORDER	

BY

THANK YOU

CASH RECEIPTS JOURNAL

ACCOUNT	ACCT. NO.		AMOUNT
CASH SALES	#01010	⊟	
CONTRACTS IN TRANSIT	#01020	⊟	
ACCTS. REC. VEHICLES	#01110	⊟	
ACCTS. REC. PTS./SVC.	#01120	⊟	
		⊟	
CASH ON HAND	#01005	⊞	
		⊟	
		⊟	
		⊞	

FORM FCMA-138-4(N)

ECKHAUS PORSCHE
325 East Market Street
LEESBURG, VIRGINIA 22075
(703) 771-8300

< 500

REFERENCE NO.	CUSTOMER NO.
REF 000621	C# 250

29 JUL 19 87

RECEIVED OF Joe Reid

8 7 280 $ 18,230.– DOLLARS

DETAIL	ACCOUNT	NOTE	HOW PAID	
AMOUNT DUE			CASH	
AMOUNT PAID			CHECK	
			DRAFT	
BALANCE DUE			MONEY ORDER	

CASH 5880 –
Reed 3350 –
CK 9,000 –

BY

THANK YOU

CASH RECEIPTS JOURNAL

ACCOUNT	ACCT. NO.		AMOUNT
CASH SALES	#01010	⊟	[illegible]
CONTRACTS IN TRANSIT	#01020	⊟	[illegible]
ACCTS. REC. VEHICLES	#01110	⊟	[illegible]
ACCTS. REC. PTS./SVC.	#01120	⊟	[illegible]
		⊟	[illegible]
CASH ON HAND	#01005	⊞	[illegible]
		⊟	[illegible]
		⊟	[illegible]
		⊞	[illegible]

FORM FCMA-138-4(N)

ECKHAUS PORSCHE
325 East Market Street
LEESBURG, VIRGINIA 22075
(703) 771-8300

< 500

REFERENCE NO.	CUSTOMER NO.
REF 000612	C# 250

24 July 19 87

RECEIVED OF Joe Reid

$ 5000.00 DOLLARS

DETAIL	ACCOUNT	NOTE	HOW PAID	
AMOUNT DUE			CASH	
AMOUNT PAID			CHECK	
			DRAFT	
BALANCE DUE			MONEY ORDER	

BY

THANK YOU

CASH RECEIPTS JOURNAL

ACCOUNT	ACCT. NO.		AMOUNT
CASH SALES	#01010	⊟	
CONTRACTS IN TRANSIT	#01020	⊟	
ACCTS. REC. VEHICLES	#01110	⊟	
ACCTS. REC. PTS./SVC.	#01120	⊟	
		⊟	
CASH ON HAND	#01005	⊞	
	$3000	⊟	
		⊟	
		⊞	

FORM FCMA-138-4(N)

ECKHAUS PORSCHE
325 East Market Street
LEESBURG, VIRGINIA 22075
(703) 771-8300

< 500

REFERENCE NO.	CUSTOMER NO
REF 000617	C# 25

27 JULY 19 87

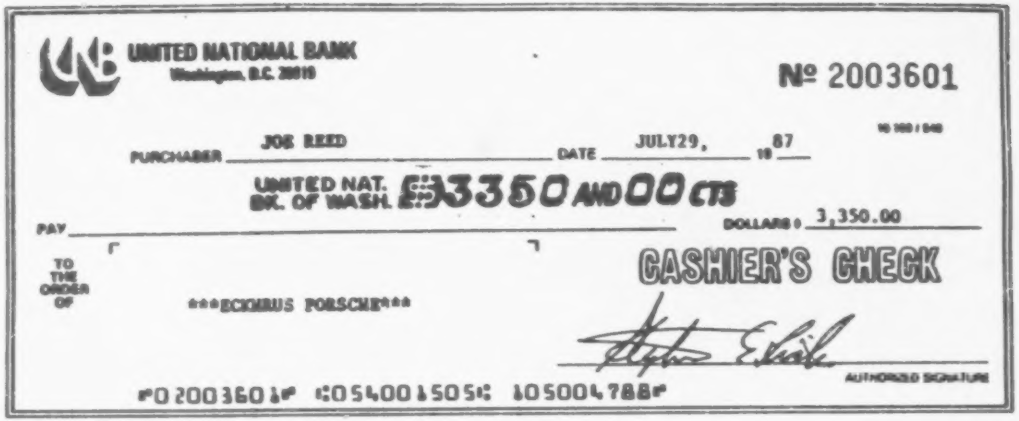
RECEIVED OF JOE REID

87280 $ 30,000.– DOLLARS

DETAIL	ACCOUNT	NOTE	HOW PAID	
AMOUNT DUE			CASH	
AMOUNT PAID			CHECK	

CASH RECEIPTS JOURNAL

ACCOUNT	ACCT. NO.		AMOUN
CASH SALES	#01010	⊟	
CONTRACTS IN TRANSIT	#01020	⊟	
ACCTS. REC. VEHICLES	#01110	⊟	
ACCTS. REC. PTS./SVC.	#01120	⊟	
		⊟	
CASH ON HAND	#01005		



UNITED NATIONAL BANK
Washington, D.C. 20019

№ 2003601

[illegible]

PURCHASER JOE REED DATE JULY29, 19 87

UNITED NAT. BK. OF WASH. $3350 AND 00 CTS

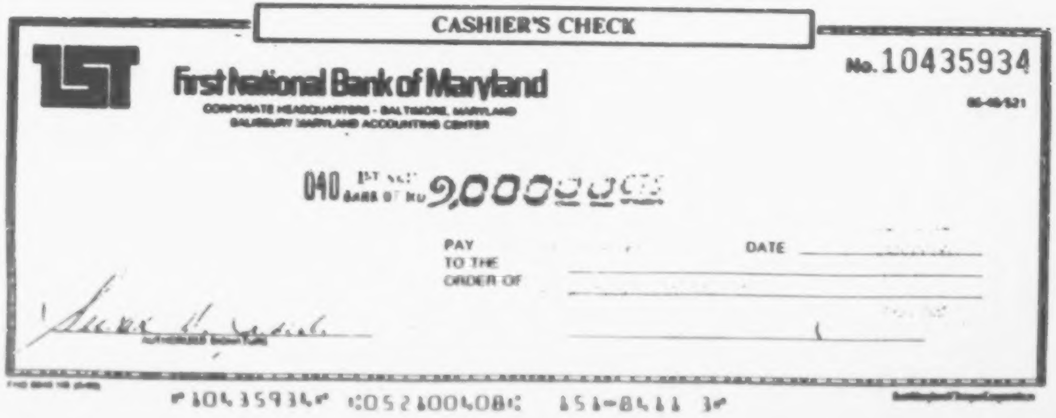
PAY DOLLARS $ 3,350.00

TO THE ORDER OF ***ECKMBUS PORSCHE***

CASHIER'S CHECK

AUTHORIZED SIGNATURE

⑈02003601⑈ ⑆054001505⑆ 105004788⑈



CASHIER'S CHECK

First National Bank of Maryland
CORPORATE HEADQUARTERS - BALTIMORE, MARYLAND
SALISBURY MARYLAND ACCOUNTING CENTER

No. 10435934

[illegible]

040 1ST NAT BANK OF MD 9,000 00

PAY TO THE ORDER OF

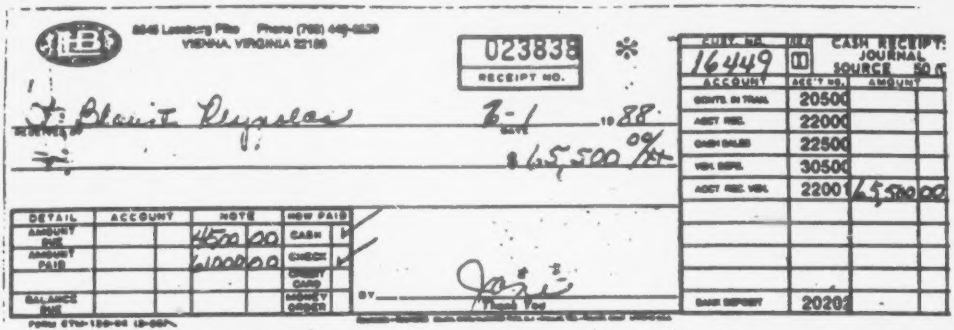
DATE

AUTHORIZED SIGNATURE

⑈10435934⑈ ⑆052100408⑆ 151-8411 3⑈

1988 Mercedes Benz 560 SEC

Date Received By Dealer		Method of Payment	
6-7-88	$ 1,000	Personal Check	(A. Rae Zanville/Madison National Bank/dated 6-6-88)
6-9-88	$ 9,500	Cashier's Check	(HEW Federal Credit Union/purchased 6-8-88)
7-1-88	$ 4,500	Cash	(Toni Reynolds)
7-1-88	$ 5,500	Cashier's Check	(HEW Federal Credit Union/purchased 6-7-88)
7-1-88	$ 4,000	Cashier's Check	(HEW Federal Credit Union/purchased 6-7-88)
7-1-88	$ 9,500	Cashier's Check	(1st National Bank of Md/purchased 6-10-88)
7-1-88	$ 9,500	Cashier's Check	(C. Perry/1st American Bank/purchased 6-9-88)
7-1-88	$ 9,500	Cashier's Check	(G. Dericott/United Bank & Trust Co. of Md/purchased 6-10-88)
7-1-88	$ 5,000	Cashier's Check	(A. Rae Zanville/Madison National Bank/purchased 7-1-88)
7-1-88	$ 8,000	Cashier's Check	(Toni Reynolds/Madison National Bank/purchased 7-1-88)
7-1-88	$ 5,000	Cashier's Check	(National Capital Bank/purchased 7-1-88)
7-1-88	$ 5,000	Cashier's Check	(National Capital Bank/purchased 7-1-88)
7-7-88	$ 2,117	Cash	(Toni Reynolds)
	$78,117		



8545 Leesburg Pike Phone (703) 448-[illegible]
VIENNA, VIRGINIA 22180

023838
RECEIPT NO.

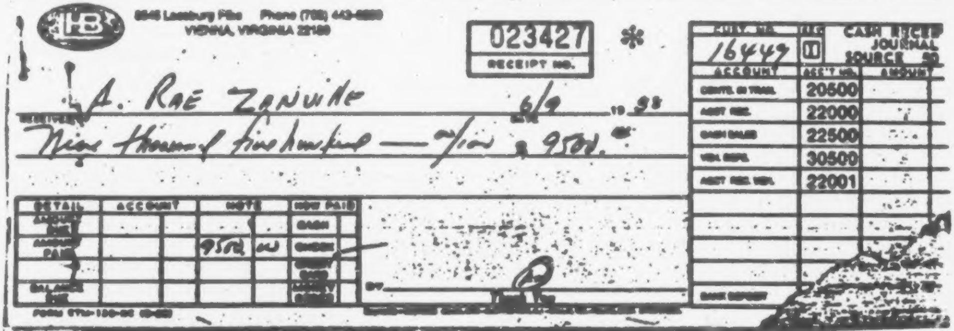
RECEIVED FROM Blount Reynolds
DATE 3-1 19 88
$ 65,500 00/xx

DETAIL	ACCOUNT		NOTE		HOW PAID	
AMOUNT DUE			4500	00	CASH	✓
AMOUNT PAID			61000	00	CHECK	✓
					CREDIT CARD	
BALANCE DUE					MONEY ORDER	

BY Jose
Thank You

CUST. NO.	REG.	CASH RECEIPTS JOURNAL SOURCE 50
16449	11	

ACCOUNT	ACC'T NO.	AMOUNT
CONTR. IN TRANS.	20500	
ACCT REC.	22000	
CASH SALES	22500	
VEH. DEPS.	30500	
ACCT REC. VEH.	22001	65,500 00
BANK DEPOSIT	20202	



8545 Leesburg Pike Phone (703) 442-[illegible]
VIENNA, VIRGINIA 22180

023427
RECEIPT NO.

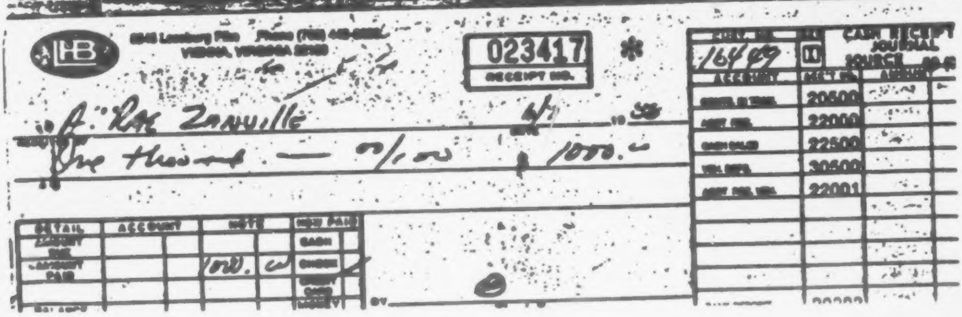
RECEIVED FROM A. RAE ZANVILLE
DATE 6/9 19 88
Nine thousand five hundred —— 00/100 $ 9500.00

DETAIL	ACCOUNT		NOTE		HOW PAID	
AMOUNT DUE					CASH	
AMOUNT PAID			9500	00	CHECK	✓
					CREDIT CARD	
BALANCE DUE					MONEY ORDER	

BY

CUST. NO.	REG.	CASH RECEIPTS JOURNAL SOURCE 50
16449	11	

ACCOUNT	ACC'T NO.	AMOUNT
CONTR. IN TRANS.	20500	
ACCT REC.	22000	
CASH SALES	22500	
VEH. DEPS.	30500	
ACCT REC. VEH.	22001	
BANK DEPOSIT		



8545 Leesburg Pike Phone (703) 448-[illegible]
VIENNA, VIRGINIA 22180

023417
RECEIPT NO.

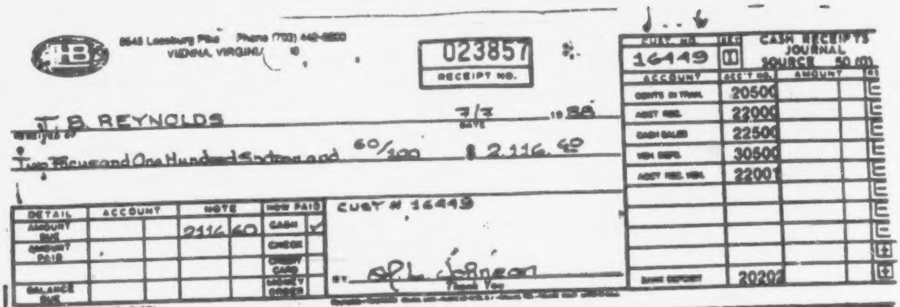
RECEIVED FROM A. Rae Zanville
DATE 6/1 19 88
One thousand —— 00/100 $ 1000.00

DETAIL	ACCOUNT		NOTE		HOW PAID	
AMOUNT DUE					CASH	
AMOUNT PAID			1000.	00	CHECK	✓
					CREDIT CARD	
BALANCE					MONEY	

BY

CUST. NO.	REG.	CASH RECEIPTS JOURNAL SOURCE 50
16449	11	

ACCOUNT	ACC'T NO.	AMOUNT
CONTR. IN TRANS.	20500	
ACCT REC.	22000	
CASH SALES	22500	
VEH. DEPS.	30500	
ACCT REC. VEH.	22001	
BANK DEPOSIT	20202	



HB [illegible] Leesburg Pike Phone (703) [illegible]
VIENNA, VIRGINIA

023857
RECEIPT NO.

T. B. REYNOLDS 3/7 19 88
RECEIVED OF

Two Thousand One Hundred Sixteen and 60/100 $ 2,116.60

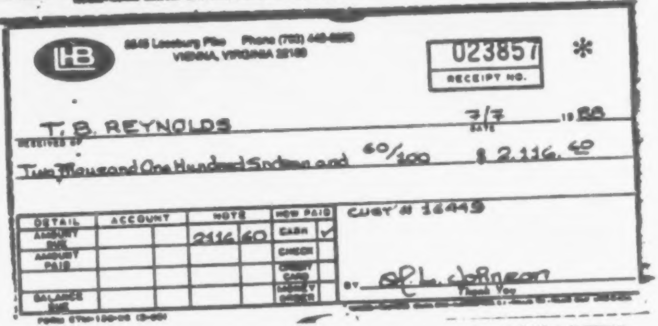
DETAIL	ACCOUNT		NOTE		HOW PAID	
AMOUNT DUE			2116	60	CASH	✓
AMOUNT PAID					CHECK	
					CREDIT CARD	
BALANCE DUE					MONEY ORDER	

CUST # 16449

BY R. L. Johnson
Thank You

CUST. NO. 16449 CASH RECEIPTS JOURNAL SOURCE 50

ACCOUNT	ACC'T NO.	AMOUNT
[illegible]	20500	
ACCT REC.	22000	
CASH SALES	22500	
[illegible]	30500	
ACCT REC. [illegible]	22001	
BANK DEPOSIT	20202	



HB [illegible] Leesburg Pike Phone (703) [illegible]
VIENNA, VIRGINIA [illegible]

023857
RECEIPT NO.

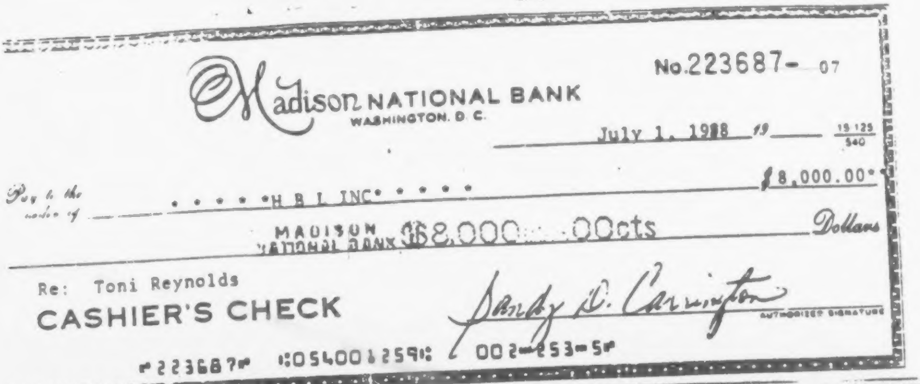
T. B. REYNOLDS 3/7 19 88
RECEIVED OF

Two Thousand One Hundred Sixteen and 60/100 $ 2,116.60

DETAIL	ACCOUNT		NOTE		HOW PAID	
AMOUNT DUE			2116	60	CASH	✓
AMOUNT PAID					CHECK	
					CREDIT CARD	
BALANCE DUE					MONEY ORDER	

CUST # 16449

BY R. L. Johnson
Thank You



Madison NATIONAL BANK
WASHINGTON, D. C.

No. 223687- 07

July 1, 1988 19 15-125/540

Pay to the order of * * * * *H B L INC* * * * * $8,000.00*

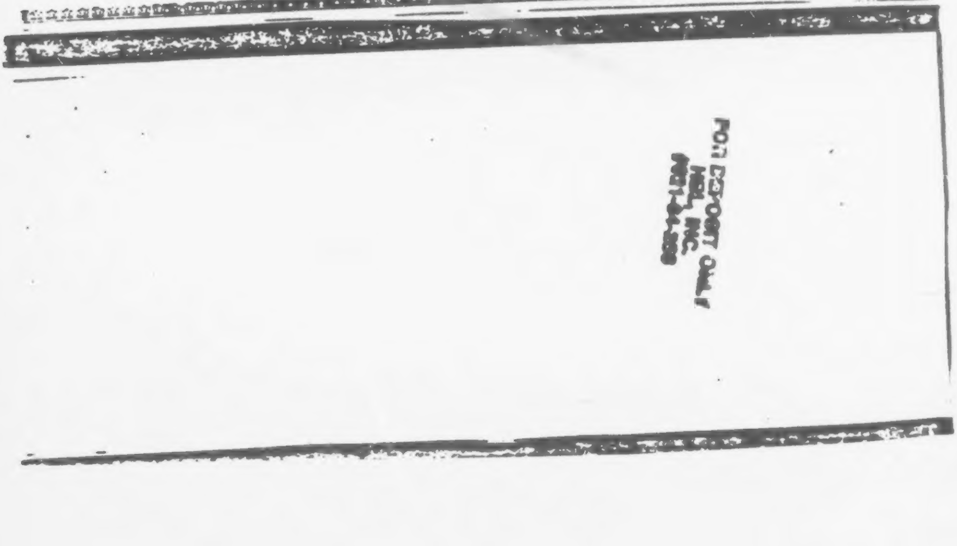
MADISON NATIONAL BANK $8,000 00cts Dollars

Re: Toni Reynolds

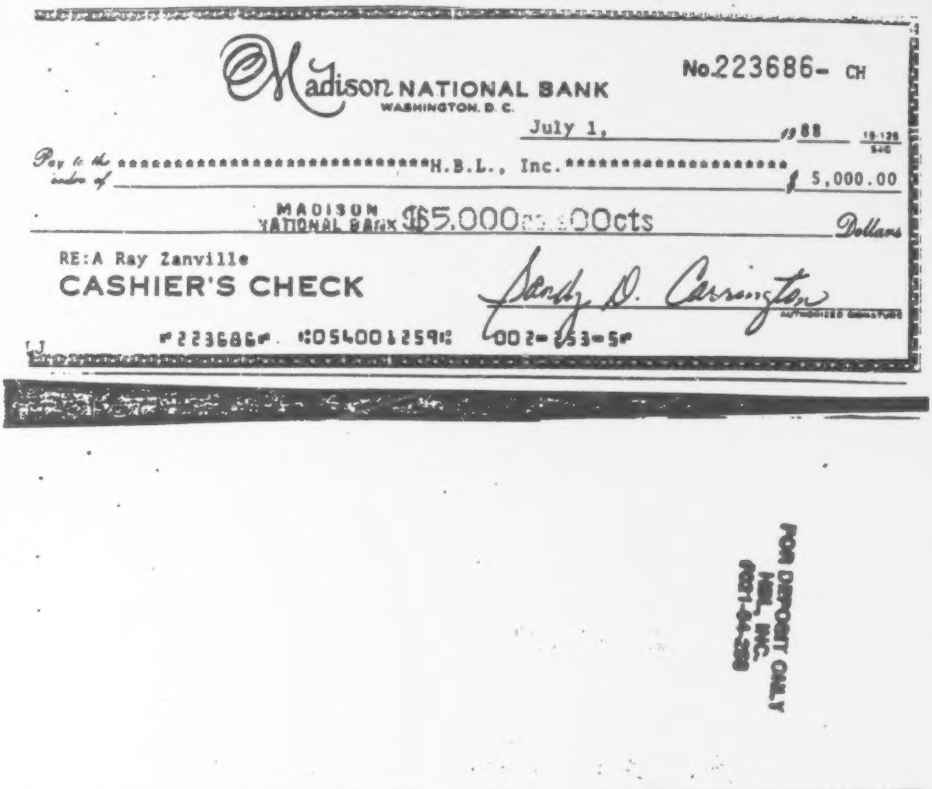
CASHIER'S CHECK

Sandy D. Carrington
AUTHORIZED SIGNATURE

⑈223687⑈ ⑆054001259⑆ 002-253-5⑈



FOR DEPOSIT Only
HBL, INC.
[illegible]



Madison NATIONAL BANK
WASHINGTON, D. C.

No.223686- CH

July 1, 1988 15-126/540

Pay to the order of ********************************H.B.L., Inc.********************** $ 5,000.00

MADISON NATIONAL BANK $$5,000 00cts Dollars

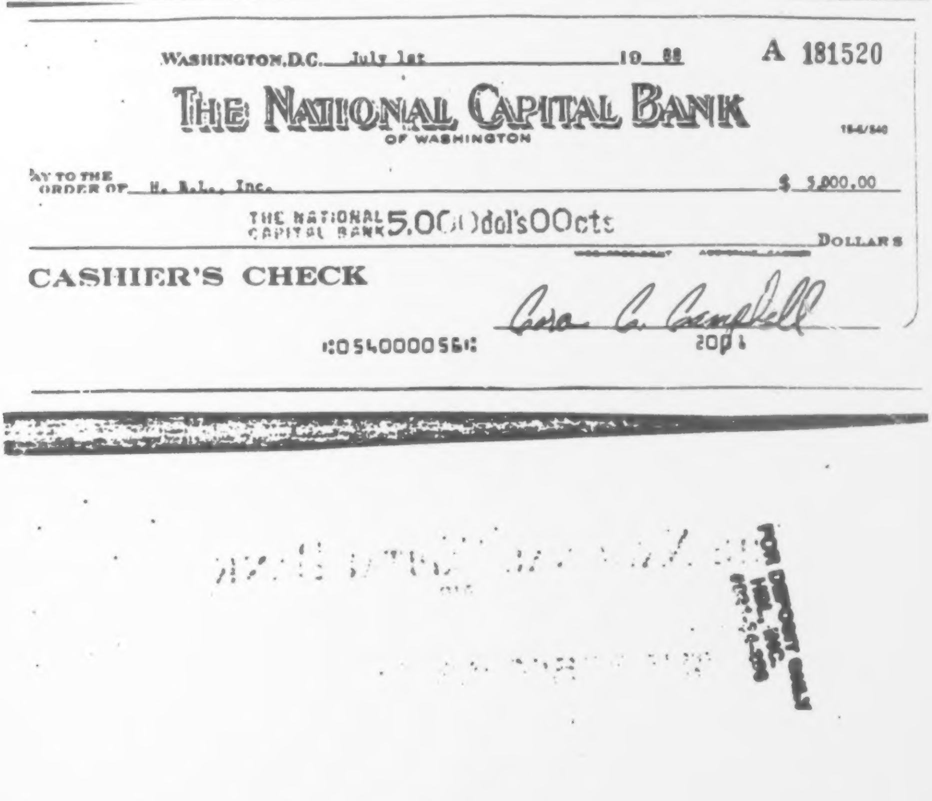
RE:A Ray Zanville

CASHIER'S CHECK

Sandy D. Carrington
AUTHORIZED SIGNATURE

⑈223686⑈ ⑆054001259⑆ 002-253-5⑈

FOR DEPOSIT ONLY
HBL, INC.
#021-04-298



WASHINGTON, D.C. July 1st 19 88

A 181520

THE NATIONAL CAPITAL BANK
OF WASHINGTON

15-6/540

PAY TO THE ORDER OF H. B.L., Inc. $ 5,000.00

THE NATIONAL CAPITAL BANK 5,000dol's00cts DOLLARS

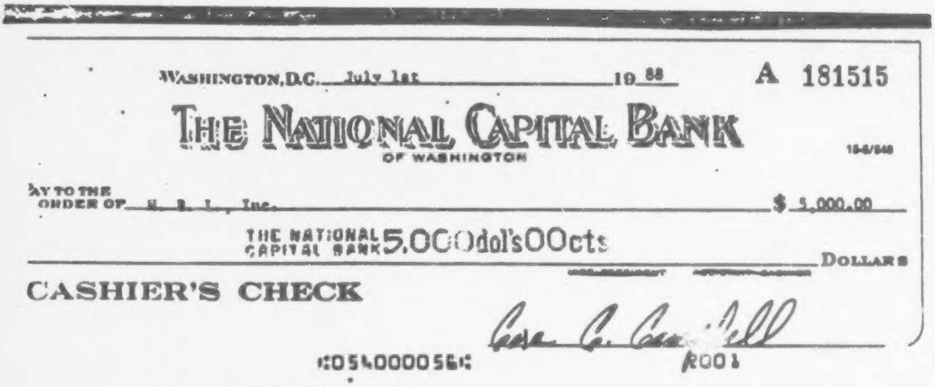
CASHIER'S CHECK

Cora C. Campbell

⑆054000056⑆ 2001

FOR DEPOSIT ONLY
HBL, INC.
#021-04-298

FOR DEPOSIT ONLY
HBL, INC.
#021-84-[illegible]



WASHINGTON, D.C. July 1st 19 88 A 181515

THE NATIONAL CAPITAL BANK
OF WASHINGTON

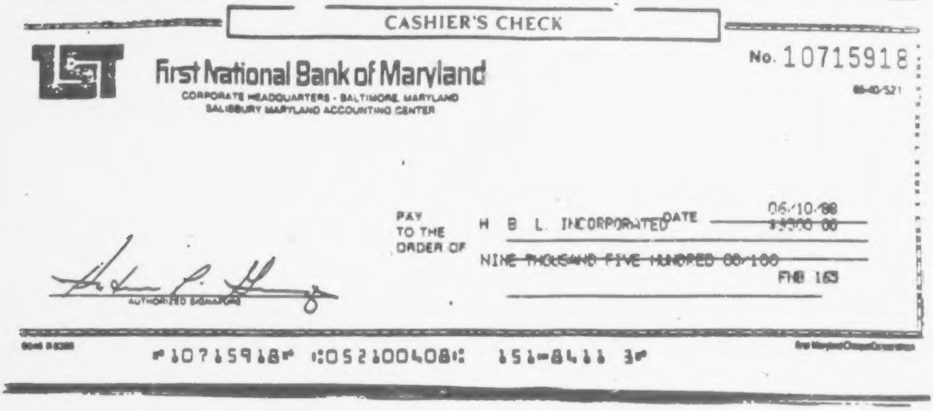
15-6/540

PAY TO THE ORDER OF H. B. L., Inc. $ 5,000.00

THE NATIONAL CAPITAL BANK 5,000 dol's 00 cts DOLLARS

CASHIER'S CHECK

⑆054000056⑆ R001



CASHIER'S CHECK

First National Bank of Maryland
CORPORATE HEADQUARTERS - BALTIMORE, MARYLAND
SALISBURY MARYLAND ACCOUNTING CENTER

No. 10715918

65-40/521

PAY TO THE ORDER OF H B L INCORPORATED

DATE 06/10/88
$9500.00

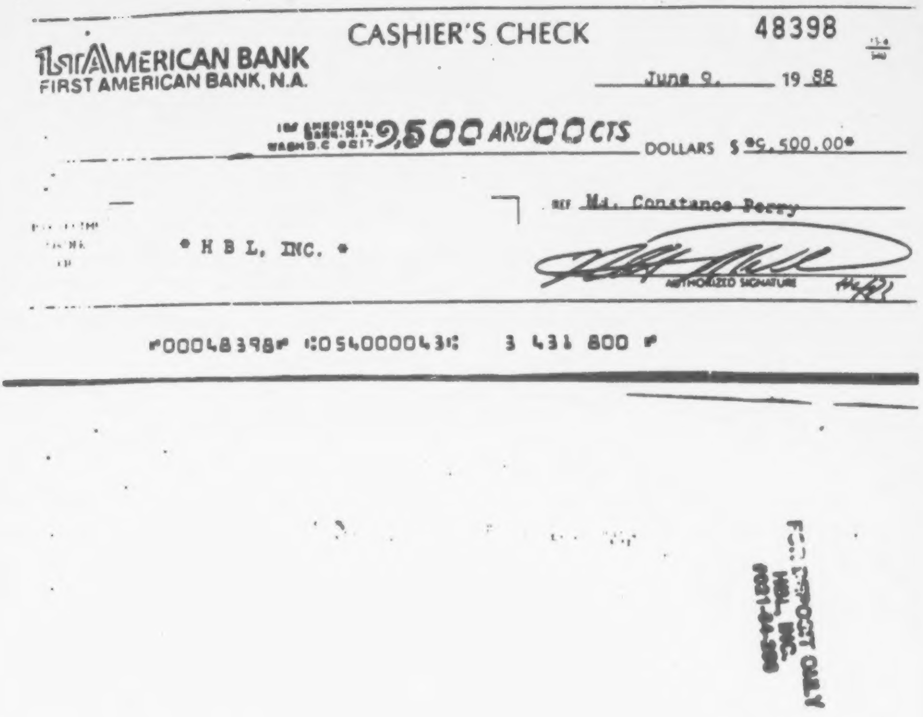
NINE THOUSAND FIVE HUNDRED 00/100

FNB 163

AUTHORIZED SIGNATURE

⑈10715918⑈ ⑆052100408⑆ 151-8411 3⑈

FOR DEPOSIT ONLY
HBL, INC.
#021-84-[illegible]



1st AMERICAN BANK
FIRST AMERICAN BANK, N.A.

CASHIER'S CHECK

48398

June 9, 19 88

1st AMERICAN BANK, N.A. WASH D.C. 0017 9,500 AND 00 CTS DOLLARS $ *9,500.00*

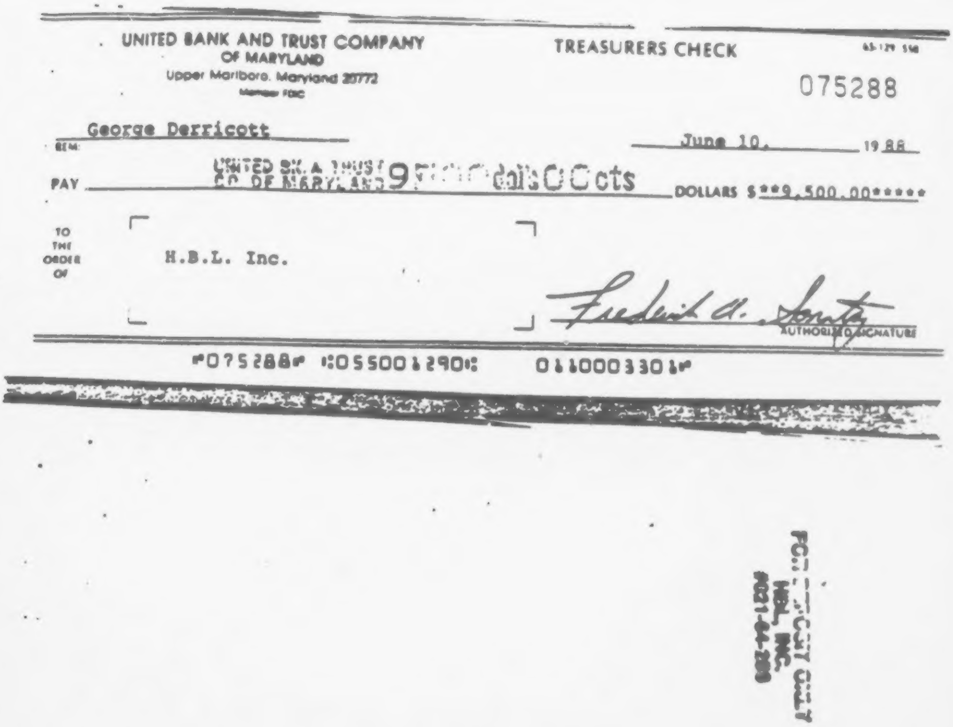
REF Ms. Constance Perry

* H B L, INC. *

AUTHORIZED SIGNATURE

⑈00048398⑈ ⑆054000043⑆ 3 431 800 ⑈

FOR DEPOSIT ONLY
HBL, INC.
#021-84-200



UNITED BANK AND TRUST COMPANY
OF MARYLAND
Upper Marlboro, Maryland 20772
Member FDIC

TREASURERS CHECK

075288

REM: George Derricott

June 10, 19 88

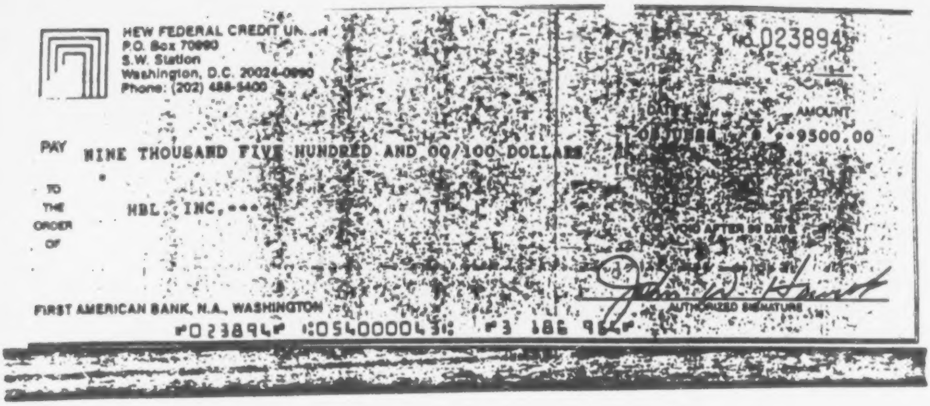
PAY UNITED BK. & TRUST CO. OF MARYLAND 9[illegible] dols 00 cts DOLLARS $**9,500.00*****

TO THE ORDER OF H.B.L. Inc.

Frederick A.
AUTHORIZED SIGNATURE

⑈075288⑈ ⑆055001290⑆ 0110003301⑈

FOR DEPOSIT ONLY
HBL, INC.
#021-84-200



HEW FEDERAL CREDIT UNION
P.O. Box 70990
S.W. Station
Washington, D.C. 20024-0990
Phone: (202) 488-5400

No. 023894

AMOUNT
$ 9500.00

PAY NINE THOUSAND FIVE HUNDRED AND 00/100 DOLLARS

TO THE ORDER OF HBL, INC.

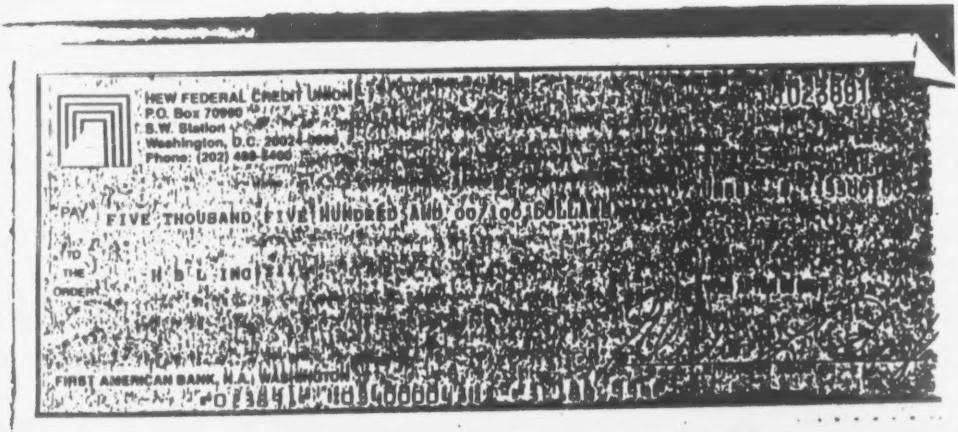
VOID AFTER 90 DAYS

AUTHORIZED SIGNATURE

FIRST AMERICAN BANK, N.A., WASHINGTON

023894 054000043 3 186 96

F.C. HBL, INC.
#021-84-268



HEW FEDERAL CREDIT UNION
P.O. Box 70990
S.W. Station
Washington, D.C. 20024-0990
Phone: (202) 488-5400

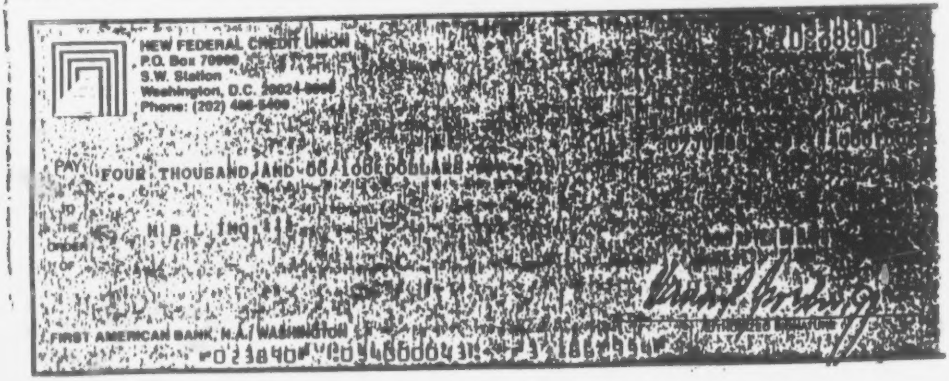
023891

PAY FIVE THOUSAND FIVE HUNDRED AND 00/100 DOLLARS

TO THE ORDER OF H B L INC

FIRST AMERICAN BANK, N.A., WASHINGTON

023891 054000043



HEW FEDERAL CREDIT UNION
P.O. Box 70990
S.W. Station
Washington, D.C. 20024-0990
Phone: (202) 488-5400

023890

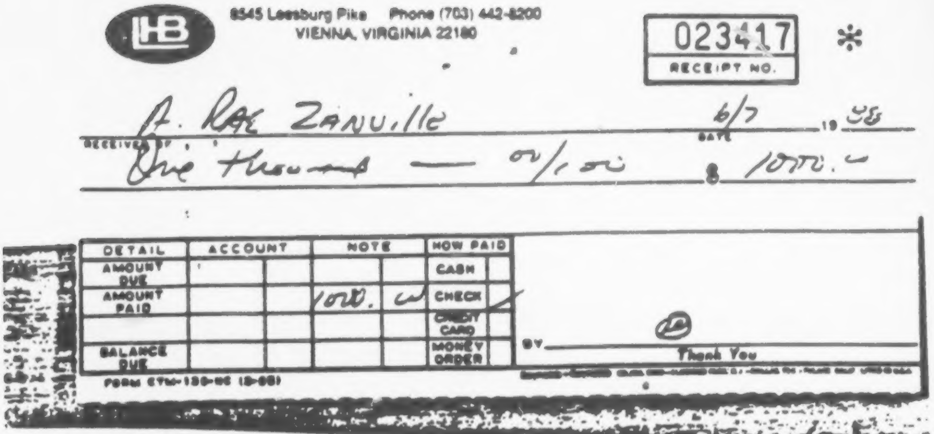
PAY FOUR THOUSAND AND 00/100 DOLLARS

TO THE ORDER OF H B L INC

AUTHORIZED SIGNATURE

FIRST AMERICAN BANK, N.A., WASHINGTON

023890 054000043 3 186 954



HB
8545 Leesburg Pike Phone (703) 442-8200
VIENNA, VIRGINIA 22180

023417
RECEIPT NO.

RECEIVED OF A. RAE ZANVILLE DATE 6/7 19 88

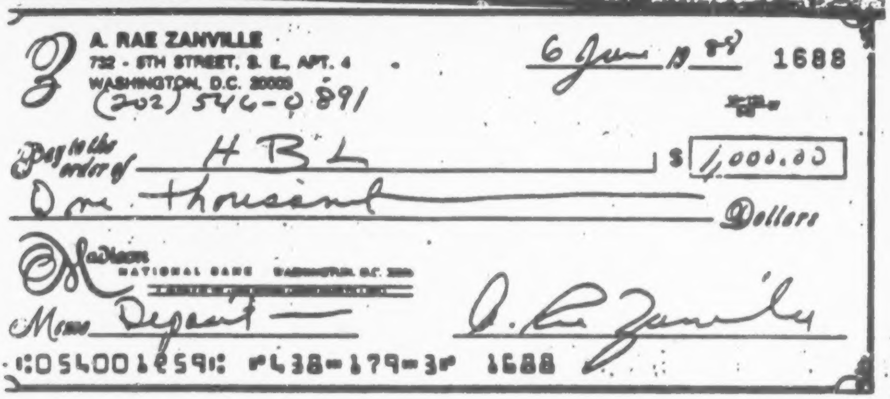
One thousand — 00/100 $ 1000.—

DETAIL	ACCOUNT		NOTE		HOW PAID	
AMOUNT DUE					CASH	
AMOUNT PAID			1000.	00	CHECK	✓
					CREDIT CARD	
BALANCE DUE					MONEY ORDER	

FORM CTM-130-HC (2-88)

BY

Thank You



A. RAE ZANVILLE
732 - 5TH STREET, S. E., APT. 4
WASHINGTON, D.C. 20003
(202) 546-0891

6 June 19 88 1688

Pay to the order of H B L $ 1,000.00

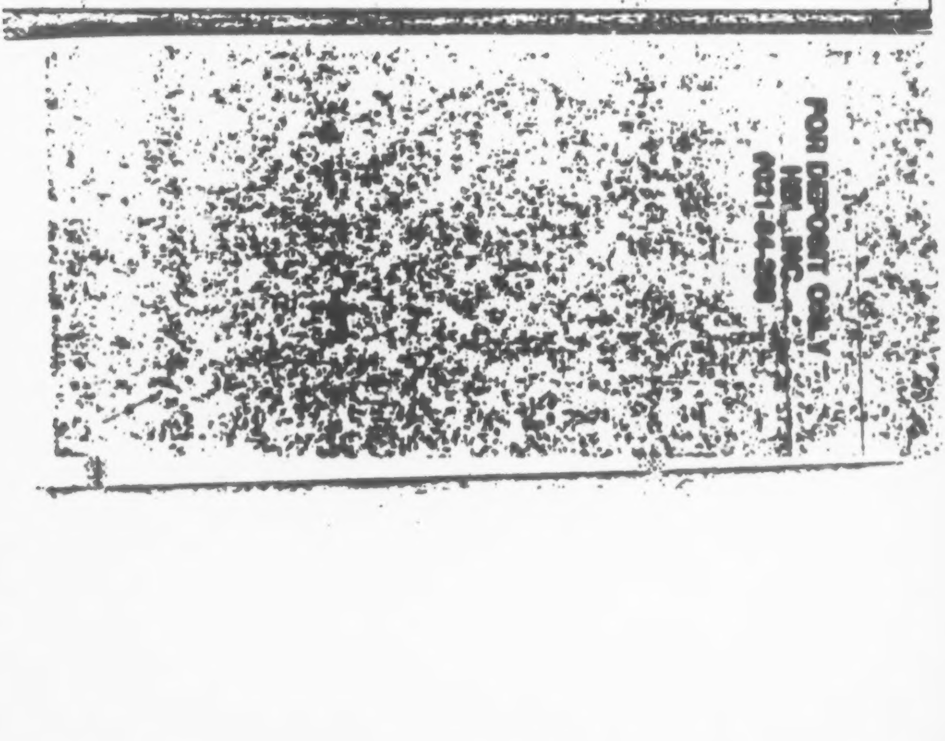
One thousand Dollars

Madison
NATIONAL BANK WASHINGTON, D.C.

Memo Deposit —

A. Rae Zanville

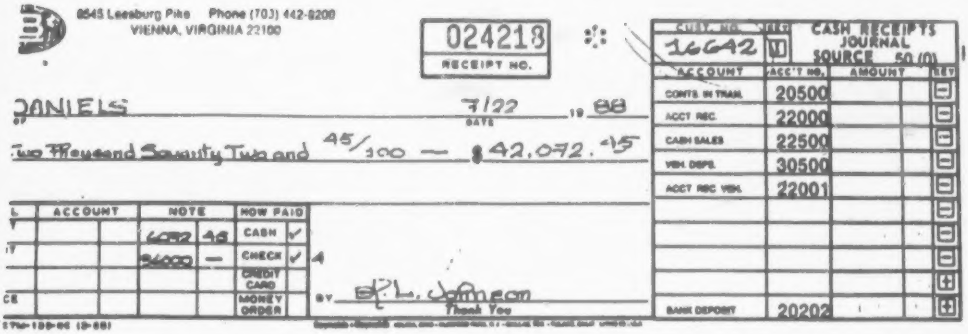
⑆054001259⑆ ⑈438-179-3⑈ 1688



FOR DEPOSIT ONLY
HBL, INC.
[illegible]

1988 Mercedes Benz 300 CE

Date Received By Dealer		Method of Payment	
7-14-88	$ 9,000	Cash	(Zanville (first name unknown))
7-22-88	$ 6,072	Cash	(Daniels (first name unknown))
7-22-88	$ 9,000	Cashier's Check	(Columbus Daniels/Sovran Bank/7-21-88)
7-22-88	$ 9,000	Cashier's Check	(C'Artis Brawner/Citizens Bank & Trust Co./7-21-88)
7-22-88	$ 9,000	Personal Check	(Columbus Daniels/Maryland National Bank/7-22-88)
7-22-88	$ 9,000	Personal Check	(Robert J. Dargan/Chevy Chase Federal Savings Bank/7-22-88)
	$51,072		



8545 Leesburg Pike Phone (703) 442-8200
VIENNA, VIRGINIA 22180

024218
RECEIPT NO.

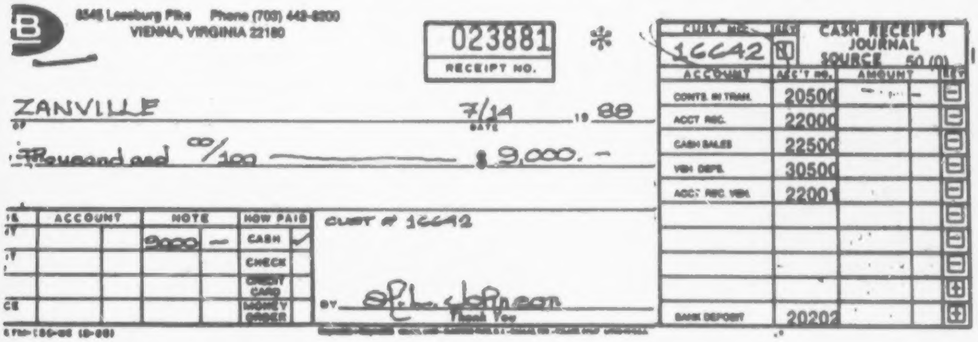
DANIELS 7/22 19 88
DATE

Two Thousand Seventy Two and 45/100 — $ 42.072.45

ACCOUNT		NOTE		HOW PAID	
		6072	45	CASH	✓
		36000	—	CHECK	✓ 4
				CREDIT CARD	
				MONEY ORDER	

BY E. L. Johnson
Thank You

CUST. NO.	REG	CASH RECEIPTS JOURNAL SOURCE 50 (0)		
16642	VI			
ACCOUNT	ACC'T NO.	AMOUNT		KEY
CONTS. IN TRAN.	20500			⊟
ACCT REC.	22000			⊟
CASH SALES	22500			⊟
VEH. DEPS.	30500			⊟
ACCT REC VEH.	22001			⊟
				⊟
				⊟
				⊟
				⊞
BANK DEPOSIT	20202			⊞



8545 Leesburg Pike Phone (703) 442-8200
VIENNA, VIRGINIA 22180

023881
RECEIPT NO.

ZANVILLE 7/14 19 88
DATE

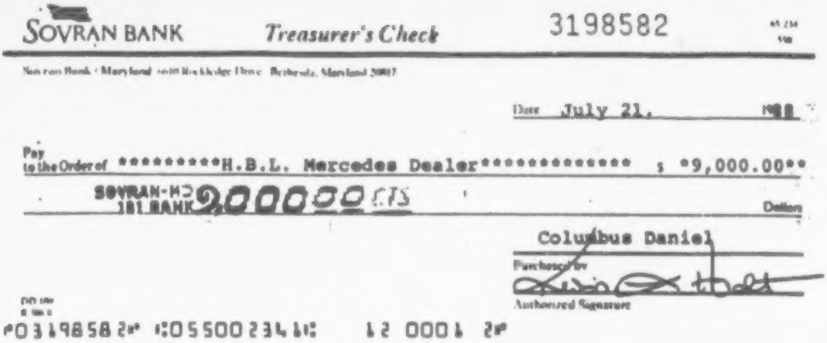
Thousand and 00/100 ——— $ 9,000. –

ACCOUNT		NOTE		HOW PAID	
		9000	—	CASH	✓
				CHECK	
				CREDIT CARD	
				MONEY ORDER	

CUST # 16642

BY E. L. Johnson
Thank You

CUST. NO.	REG	CASH RECEIPTS JOURNAL SOURCE 50 (0)		
16642	VI			
ACCOUNT	ACC'T NO.	AMOUNT		KEY
CONTS. IN TRAN.	20500		–	⊟
ACCT REC.	22000			⊟
CASH SALES	22500			⊟
VEH. DEPS.	30500			⊟
ACCT REC VEH.	22001			⊟
				⊟
				⊟
				⊟
				⊞
BANK DEPOSIT	20202			⊞



SOVRAN BANK Treasurer's Check 3198582

Sovran Bank / Maryland [illegible] Rockledge Drive Bethesda, Maryland 20817

Date July 21, 1988

Pay to the Order of *********H.B.L. Mercedes Dealer************* $ *9,000.00**

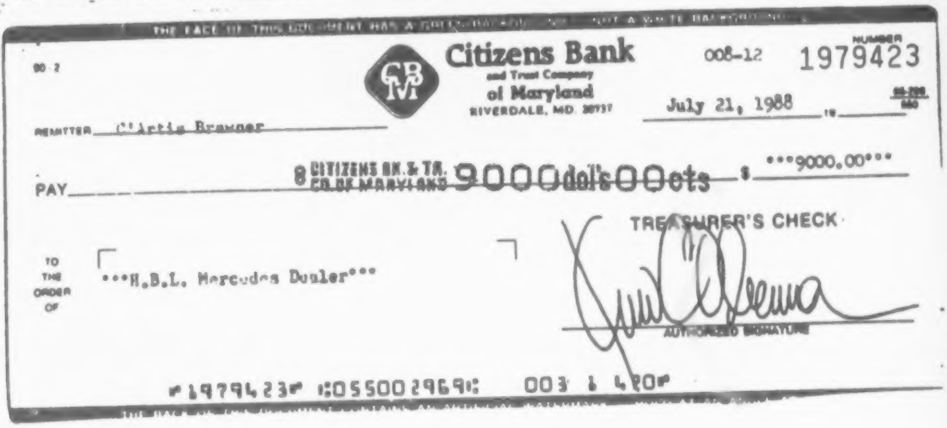
SOVRAN-MD 181 BANK 9000 00 CTS Dollars

Columbus Daniel

Purchased by

Authorized Signature

⑈03198582⑈ ⑆055002341⑆ 12 00012⑈



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Citizens Bank and Trust Company of Maryland RIVERDALE, MD 20737

008-12 NUMBER 1979423

July 21, 1988

REMITTER C'Artis Brawner

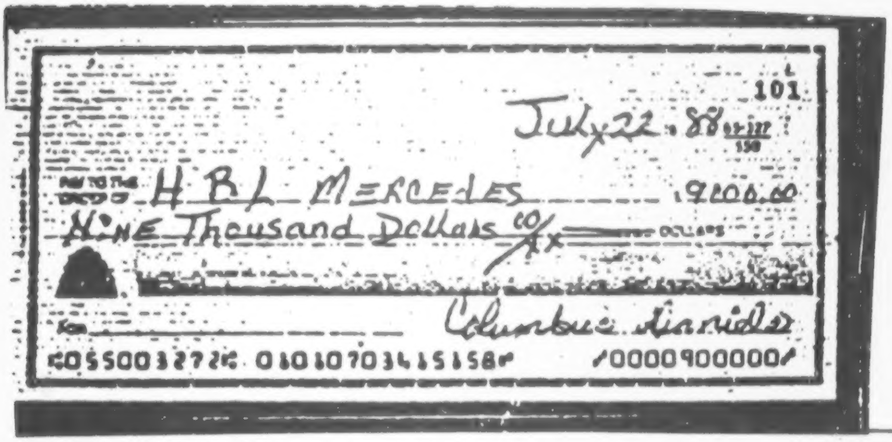
PAY 8 CITIZENS BK.& TR. CO.OF MARYLAND 9000dols00cts $ ***9000.00***

TREASURER'S CHECK

TO THE ORDER OF ***H.B.L. Mercedes Dealer***

AUTHORIZED SIGNATURE

⑈1979423⑈ ⑆055002969⑆ 003 1 420⑈



101

July 22, 88

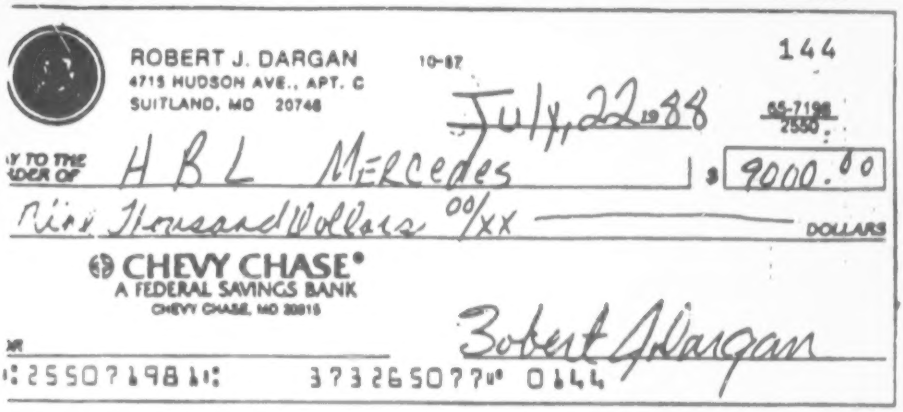
PAY TO THE ORDER OF H B L MERCEDES $9000.00

Nine Thousand Dollars 00/XX DOLLARS

FOR

Columbus [illegible]

055003272 01010703415158 /0000900000/



ROBERT J. DARGAN
4715 HUDSON AVE., APT. C
SUITLAND, MD 20746

10-87

144

July, 22 1988

65-7198
2550

PAY TO THE ORDER OF H B L Mercedes $ 9000.00

Nine Thousand Dollars 00/XX DOLLARS

CHEVY CHASE®
A FEDERAL SAVINGS BANK
CHEVY CHASE, MD 20815

FOR

Robert J Dargan

255071981 373265077 0144

Chairman Pickle. Let me just repeat what I understand you to have just said.

Mr. Anthony, a few minutes ago, said that had Mr. Gomez and Ms. Jackson actually offered the cash and completed the transaction that at that point we could have moved in and had evidence that they were guilty of violating the law.

That was not done because we were trying to make the case in practice, rather than establish a legal case to prosecute.

In the Rayful Edmond case, you actually went out and talked to the merchants who did accept the money, did complete the transactions?

Mr. Arnold. Yes.

Chairman Pickle. And they have admitted it now to you, so we can talk about it openly?

Mr. Arnold. Yes.

Chairman Pickle. I assume that information has been turned over to the Treasury or to the IRS.

Is anything being done about that?

Mr. Arnold. It has also been turned over to the U.S. Attorneys Office in the District of Columbia, the office that tried Rayful Edmond and his gang.

They indicated they have an ongoing money laundering investigation paralleling the Rayful Edmond case.

These were in 1987 and 1988.

Chairman Pickle. This is 1990, and you say they have an ongoing investigation?

Mr. Arnold. That is what they told us, yes. They won't tell us any more about it because it is ongoing.

Chairman Pickle. It is ongoing very slowly then, isn't it?

Mr. Arnold. Apparently.

Chairman Pickle. Mr. Schulze.

Mr. Schulze. Thank you, Mr. Chairman.

In looking over form 8300—and I presume you are all familiar with form 8300—I just wonder whether the IRS has not gone a little bit overboard again in searching for more information than would really be essential for reporting.

In your opinion, would a simple reporting form with name, address, transaction, date, be sufficient and let IRS do the best?

I would think that this would be a little intimidating to fill out all this information if somebody is coming in to buy something, asking them all these questions.

What is your opinion of form 8300?

Mr. Arnold. According to the IRS, they performed a study and it should take about 20 minutes to complete this form. Most businesses would not engage, we presume, in a large number of cash transactions in any given year, so 20 minutes times the number of transactions that they would happen to complete during the year wouldn't seem to be too much of a burden.

Mr. Schulze. That is a little bit of a bureaucratic answer.

Having been a businessman, 20 minutes is a lot of time filling out another darn Government form. So you are telling me all this information really is essential, that they need that?

Mr. Arnold. I am not saying that.

Mr. Schulze. My question was do you think they asked for a little too much? Is all this necessary?

Wouldn't it be a lot easier just to get the bare essentials and let them look at it?

In other words, if they didn't have this form and it wasn't so complex, I could even see perhaps lowering the amount.

If you had to fill this out for every major transaction, you would have another bookkeeper or another computer that the company would have to buy.

Mr. Heck. It is a one-page document and in most cases most businesses don't have that many transactions in a year of time involving over $10,000 of cash.

The other point is that the nature of the transaction determines how much of the form needs to be filled out so in all cases not the entire form needs to be completed.

The form was just modified to make it very similar to the forms filed by financial institutions, the CTR reports, and the form contains basically the name, address, date of birth, which is important for law enforcement, and the Social Security number, and concerning the nature and description of the transaction involved, which is important for law enforcement.

The bottom part is the name, address and identification information of a business.

Mr. **Schulze**. They are important to law enforcement if you get them.

If you don't get them, they don't do you any good at all. If this transaction was conducted by more than one person, check here under organization, if funded by another party see instructions and check here.

I've got to tell you this just looks like another typical IRS form. In my opinion, they don't need it. It is something else.

I am not justifying any of these failures to fill out the forms in these transactions, but I am telling you that the average businessman looks at that or the average citizen, if you were sent this, along with forms for your income tax——

Chairman **Pickle**. Would you yield?

Mr. **Schulze**. Certainly.

Chairman **Pickle**. I have looked over form 8300. It is a rather simple form in my opinion.

I would not think it would be as difficult as Mr. Schulze indicated, but I think we ought to pose the question to the IRS to see if they ought to simplify it.

I presume if you had a sale of something worth $200,000, I don't think it would take 3, 5, 10 minutes to fill it out.

Mr. **Schulze**. Mr. Chairman, what is going through my mind is that perhaps we should lower this from $10,000.

If we are going to lower it, we are going to make the amount of cash that has to be reported even lower, that would mean a multitude of these things and if it takes 20 minutes for each one it would really take a lot of time.

Why is all this information needed?

Mr. **Heck**. The next panel includes individuals who took part in reforming the form 8300. They just revised the form and they are here to testify today——

Mr. **Schulze**. Do you have a copy of the unreformed?

Mr. **Heck**. We do have a copy of the old form.

Mr. **Schulze**. Thank you.

Chairman **Pickle**. Mr. McGrath.

Mr. **McGrath**. Do you believe that the reason that the businesses did not fill out this form was because of the complexity of the form or the greed to get the money?

Mr. **Arnold**. I don't think it had anything to do with the complexity of the form.

Mr. **McGrath**. I don't either.

From your investigation, do you believe that the businesses were knowledgeable about the requirements of reporting?

Mr. **Arnold**. I would say one or two of them clearly were knowledgeable.

Most of them I think were ignorant at least to some extent.

We went to one car dealer who had a sign up on his wall that said that cash transactions over $10,000 should be reported, but I don't think he understood that would include cash from two parties or cash separated by a number of days even though it was for a single transaction involving one car.

I don't think he clearly understood the nuances of the regulations, so it went from people who knew the regulations to people totally ignorant and some were partially ignorant.

Mr. **Smith**. Many businesses thought that since they took the cash to the bank and the bank reported it, they were covered, which was erroneous.

Mr. **McGrath**. Was their confusion as to whether or not cash was considered to be a money order or bank check?

Mr. **Arnold**. Everybody knew they did not have to report cashier's checks or money orders.

Mr. **McGrath**. Was there any pattern that emerged across the transactions that you investigated?

Mr. **Arnold**. Multiple cashier's checks. It was clear that multiple cashier's checks was the preferred technique to avoid reporting.

I am not sure why they dealt with cash in the case of this Porsche, $30,000 of cash in one day, it must have been a bad day, didn't want to stop at five banks and buy the cashier's checks.

We found a lot of multiple cashier's checks.

Mr. **McGrath**. There is a term in cash transactions reports from banks called smurfing.

Mr. **Arnold**. Right.

Mr. **McGrath**. Did you see any examples of smurfing out there?

Mr. **Arnold**. This is a form of smurfing, busting the transaction down into less than $10,000, but instead of putting the money in the bank, they are buying the cashier checks and taking them to the merchants.

They would also break down the cash installments over a period of time, which is another form of smurfing.

Mr. **McGrath**. Thank you.

Chairman **Pickle**. Mr. Shaw.

Mr. **Shaw**. Thank you, Mr. Chairman.

Mr. Chairman, in looking at the list of reported transactions, I see over the last 6 years in Florida there has only been a little over 12,000 transactions.

Obviously, Florida has a large problem because of its geographic allocation as being a gateway center or it certainly has been over the last number of years for drug dealing, which would indicate that this is way, way off in comparing the transactions. I think it comes third in the country behind California and New York and that indicates it is probably more related to the population than to the transaction. The transactions would be far in excess of this.

Correct, it is a felony not to make this report?

Mr. **Arnold**. The criminal penalty on the books is that the crime is characterized as a misdemeanor but punishable by up to 5 years in prison, which is an anomaly.

There is an amendment to a bill pending that would clarify classifying the crime as a felony.

Mr. **Shaw**. Has anyone ever been prosecuted under this law?

Mr. **Arnold**. I believe there has been one case filed, although the Department of Justice will be here later today and we have asked them to discuss that.

Mr. **Shaw**. The law has been on the books since 1985?

Mr. **Arnold**. Right.

Mr. **Shaw**. I think that just bringing attention to this and having some people in some of the worst cases actually prosecuted and imprisoned for this is going to go a long way towards bringing about enforcement, but it would appear to me that perhaps maybe with sending out the IRS forms this year that the IRS should advise people that there is going to be some enforcement in this area and I feel that the work of this committee is going to solidify their efforts in that regard.

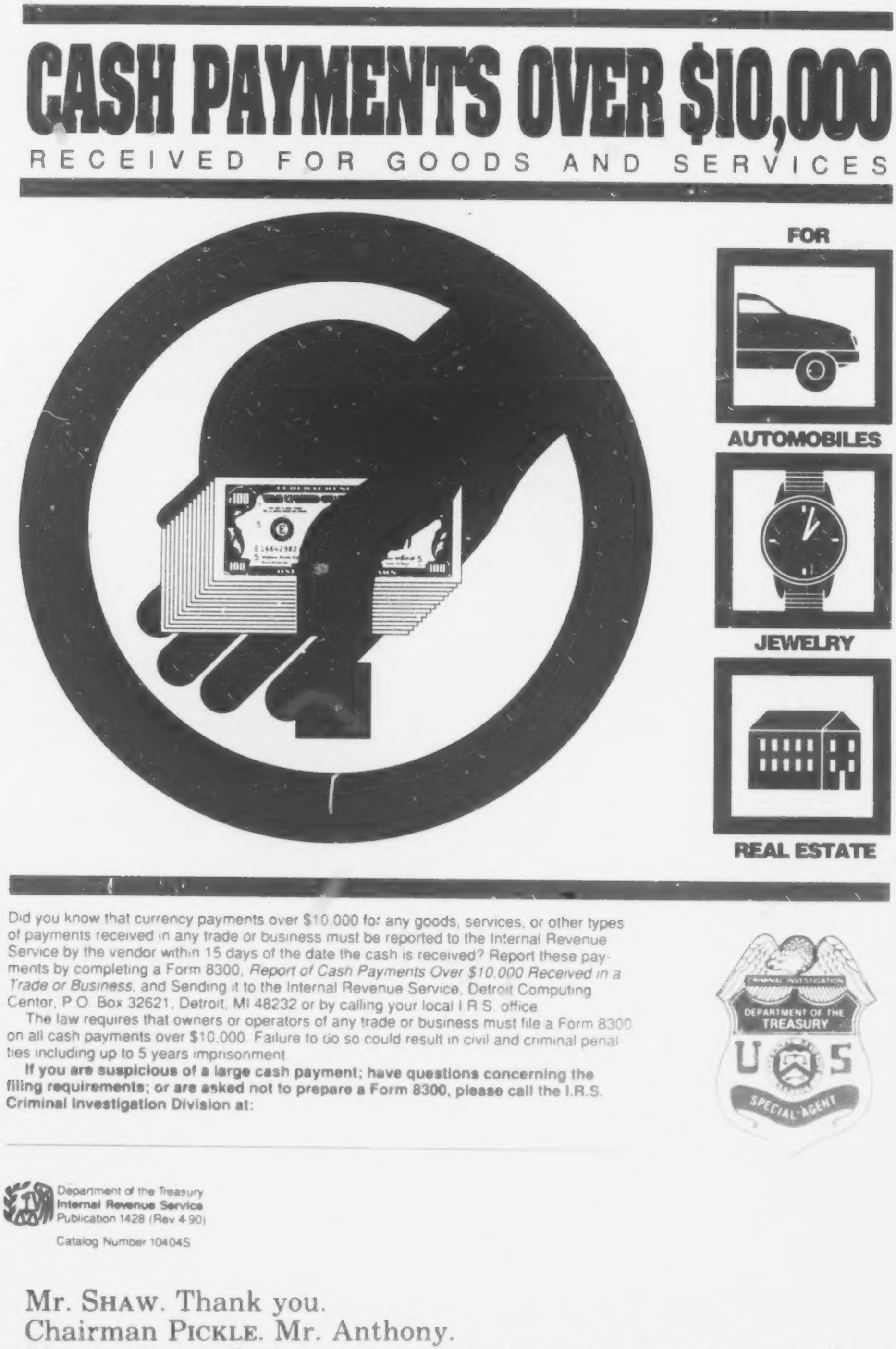
Mr. **Arnold**. We would hope so.

Mr. **Shaw**. What do you think about sending out some type of notification with tax forms——

Mr. **Smith**. There is this poster that the IRS has put out notifying businesses of the requirement.

However, at least in the Washington, D.C. area, of the businesses we went to, only one had any kind of notice posted in a viewable area and it wasn't this notice.

[The poster referred to follows:]



CASH PAYMENTS OVER $10,000

RECEIVED FOR GOODS AND SERVICES

FOR

AUTOMOBILES

JEWELRY

REAL ESTATE

Did you know that currency payments over $10,000 for any goods, services, or other types of payments received in any trade or business must be reported to the Internal Revenue Service by the vendor within 15 days of the date the cash is received? Report these payments by completing a Form 8300, *Report of Cash Payments Over $10,000 Received in a Trade or Business*, and Sending it to the Internal Revenue Service, Detroit Computing Center, P.O. Box 32621, Detroit, MI 48232 or by calling your local I.R.S. office

The law requires that owners or operators of any trade or business must file a Form 8300 on all cash payments over $10,000. Failure to do so could result in civil and criminal penalties including up to 5 years imprisonment.

If you are suspicious of a large cash payment; have questions concerning the filing requirements; or are asked not to prepare a Form 8300, please call the I.R.S. Criminal Investigation Division at:

Department of the Treasury
Internal Revenue Service
Publication 1428 (Rev 4-90)

Catalog Number 10404S

Mr. SHAW. Thank you.

Chairman PICKLE. Mr. Anthony.

Mr. ANTHONY. I want to get into one area to make sure that I personally understand it.

Mr. Arnold, in your statement on page 2, when you talk about the filing requirement that applies to all transactions involving the same person within a 24-hour period and related transactions over a period of time, at the end of that paragraph, you say "does not include transactions using a combination of cashier's checks or money orders."

Mr. ARNOLD. Right.

The statute defines cash as meaning coin or currency only, and not other forms of payment that we would consider to be similar to cash.

That would be required—if you carried cashier's checks or any other form of monetary instrument across the border, you would have to file with the Customs Service, but in this case, it is defined as just currency.

Mr. ANTHONY. Someone would offer to buy an item for $30,000 in cash——

Mr. ARNOLD. He would make it clear that he was referring to currency, greenbacks, bags of money, satchels of money, to make it clear that he meant currency, and not that you would just write a check or bring a cashier's check so that we would separate that possible misunderstanding or eliminate it.

Mr. ANTHONY. Mr. Gomez and Ms. Jackson, in each of the instances, you clearly tried to do that so that your investigation would clearly show the intent was to transact business in cash and currency?

Ms. JACKSON. Yes, I think we did. We let them know we are talking green dollars, not cashier's checks or any other type of note.

Mr. ANTHONY. They would offer advice and suggestions on how to reduce the actual currency or cash to include a cashier's check—would that be a violation of the law if, in fact they did a completed transaction in that way, you go in and say $20,000 cash and they say, "Give me $9,000 in cash and the rest in cashier's checks."

You leave and get the cashier's check and give them less than $10,000 in cash, the rest in a cashier's check.

Is that a violation?

Mr. HECK. Mr. Anthony, section 6050I deals with individuals who cause or attempt to cause a trade or business to fail to file a form.

I think there are provisions there which attempt to get at folks who cause a business to evade the reporting requirements.

I am a little unclear as to the aspects of cashier's checks, but I think it is clear when somebody sits down with a businessman and tries to structure a deal to get around it, there is a clause in law saying that is a violation. That is something that may need to be clarified with legislation.

Mr. ANTHONY. So the testimony that you gave earlier about one of the participants in your operation, when they said it is the letter of the law and not the spirit of the law, that person, as cynical as they may be, may be correct in this particular circumstance.

They might have known that they were violating a clear spirit of the law, but maybe a sharp attorney could get them off on the technicality.

Is that what Mr. Heck is saying?

Mr. ARNOLD. Perhaps.

In our opinion, that would fall into this area where the violation, if there were one, would be for structuring and that falls into the unclear area of whether the structuring applies to the business themselves and not just the customer.

Mr. **Anthony**. If it is unclear, it falls upon the legislative body to conduct a hearing like this to establish a legislative history and then make recommendations. I assume you are recommending this matter be clarified.

Has the committee received from the administration any recommendations for clarification in this area in the last few months?

Mr. **Heck**. I can say that during our investigation and review of section 6050I we have been in contact with both Treasury and IRS to get ideas and recommendations on how the section can be improved to make it more enforceable.

Mr. **Anthony**. Have they made recommendations to you?

Mr. **Heck**. I think they will be prepared to give guidance today on what can be done.

Mr. **Anthony**. Have they given your recommendations in the past, specific recommendations that everybody could understand?

Mr. **Heck**. No.

Mr. **Anthony**. They may be prepared to do so in their testimony today?

Mr. **Heck**. Yes.

Mr. **Anthony**. But there has been a failure until today, in an area that is potentially unclear they have not given guidance; is that correct?

They can state their viewpoints on this, but I want to know how you feel about it in terms of whether you are getting any guidance.

Mr. **Heck**. No.

I think we are the ones that brought it to their attention.

Mr. **Anthony**. In other words, our staff brought it to their attention?

Mr. **Heck**. The issues discussed today, yes.

I think they were aware of the fact that there are businesses not complying.

I think this hearing today will spur them on.

Mr. **Anthony**. I think it should spur them on.

I liked what Mr. Shaw said—some of these requirements were put into the law in 1984. That is almost 6 full years, Mr. Chairman, for them to learn and understand the police community, that is, what their responsibility is.

I think it is fairly clear from Mr. Gomez and Ms. Jackson's testimony and their report that there is a good understanding of the law and because of that fact it gives them a burden to go forward.

Just to be crystal clear and to be abundantly fair, I think maybe we ought to try to devise some additional way to notify the business community at large of the responsibility, but I think that first we have got to inform them of how bad the problem is.

I think if one transaction takes place, it would be easy for that one business person to say this one transaction isn't going to have that great an impact on money laundering.

I think if they were aware of the magnitude of this problem, they would be shocked and maybe be willing to say no.

It is a fear of loss of sales. If they knew their competitor was saying no and it was being enforced, at least they are walking into a better atmosphere.

We are here to use this as an investigatory tool to stop the original criminal activity and it doesn't have to be drugs.

It could be a whole host of criminal activity that we would be seeking to halt.

I would just say to you if you could suggest to us some additional ways that we could notify the business community so that they could never have the opportunity to say, "Well, they weren't sure."

I know that is not a clear defense of the law, but I think probably the community at large may be willing to give them a second chance.

Chairman PICKLE. Would the gentleman yield?

Mr. ANTHONY. Yes.

Chairman PICKLE. When we made amendments to the 1988 drug program and section 6050I was amended, it made it clear that the imposed penalties were for causes or attempts to cause a business not to file a return or to file a return that contains a material omission or misstatement.

These amendments imposed penalties on persons who were engaged in business who caused a customer to structure a transaction to avoid reporting.

The intent also is to say to the purchaser that the same obligation goes to that individual who would also be guilty of violation of the law.

Mr. Anthony, I am going to make some suggestions at the end of the hearing today, recommendations by the staff to our committee for corrections in the law.

We will be asking Treasury and IRS their position on some of these matters, but it is an area I think we must go forward in this testimony to see what we can do to correct it.

I thank you very much, Mr. Arnold and the staff. You have done a good job.

Mr. Gomez and Ms. Jackson, we appreciate the excellent investigatory work that you have conducted.

It has been very valuable to us and we thank you both.

Now we will ask the U.S. Department of the Treasury if they would come forward.

We have Mr. Peter Nunez, who is Assistant Secretary for Enforcement, accompanied by Amelia Gomez and Shelley Altenstadter.

We also appreciate the cooperation of Mr. Navera in making it possible for us to go forward with this testimony today.

Mr. Nunez is Assistant Secretary for Enforcement. Ms. Gomez is Special Advisor to the Director of the Office of Financial Enforcement; and Shelley Altenstadter is the Deputy Director of the Financial Crimes Enforcement Network.

STATEMENT OF HON. PETER K. NUNEZ, ASSISTANT SECRETARY FOR ENFORCEMENT, U.S. DEPARTMENT OF THE TREASURY, ACCOMPANIED BY SHELLEY G. ALTENSTADTER, DEPUTY DIRECTOR, FINANCIAL CRIMES ENFORCEMENT NETWORK; AND AMELIA A. GOMEZ, SPECIAL ADVISER TO THE OFFICE OF FINANCIAL ENFORCEMENT

Mr. NUNEZ. Thank you, Mr. Chairman and members of the committee. I would like to thank you for this opportunity to testify about Treasury's role in the fight against money laundering and the criminal enterprises that it sustains. I have submitted a lengthy statement which I ask you to be submitted for the record. As you indicated, seated to my right is Shelley Altenstadter, the Deputy Director of the Treasury, Financial Crimes Enforcement Network, and to my left is Amelia Gomez, Special Adviser to the Office of Financial Enforcement and former Deputy Director of that office. Ms. Altenstadter will follow my remarks with a discussion of the mission and operations of the FinCEN. As the chairman had indicated Mr. Brian Bruh, the Director, and Amy Rudnick, the Director of the Office of Financial Enforcement were unable to attend today because of their religious objections and I appreciate the committee's willingness to allow them to submit written statements if they wish.

Secretary Brady and Deputy Secretary Robson have placed money laundering at the forefront of Treasury's enforcement priorities. We recognize that it is in the area of antimoney laundering activities that Treasury can make our most significant contribution to the war on drugs.

Money laundering is a complex economic crime that demands a thorough understanding of how financial institutions and other businesses operate in order to prevent their abuse. Treasury brings to the problem the perspective of a law enforcement agency, a financial institution regulatory agency, and the agency concerned with the overall condition of our domestic and international financial systems.

We understand law enforcement concerns. We also appreciate the necessity of balancing law enforcement needs with other legitimate considerations such as the cost of enforcement measures to financial institutions and other businesses and issues such as financial and taxpayer privacy. Achieving the appropriate balance is a challenge shared by the administration and Congress as we seek solutions to this problem.

Experience has taught us that significant progress can only be made against drug trafficking, and the money laundering that fuels it, by painstaking, sophisticated financial analysis on our part. In this way, we can uncover the tangled web of financial dealings of drug and other criminal organizations so that we might deprive the organizations of their ill-gotten gains. Given the international character of drug trafficking and money laundering, this analysis cannot stop at any border, but depends upon the active and willing cooperation of other countries committed to equally stringent antimoney laundering measures.

Treasury's antimoney laundering program can be characterized as following three related tracks—criminal investigation, collection and analysis of data in support of money laundering and other financial crimes, and promotion of international cooperation.

First Treasury shares with the Justice Department and the Postal Service investigatory authority for the crime of money laundering. Treasury's authority is exercised by delegations from my office to IRS, Customs, the Bureau of Alcohol, Tobacco and Firearms and the Secret Service.

The U.S. Customs Service and the Internal Revenue Service also have been delegated authority to investigate criminal violations of the Bank Secrecy Act, which are directly indicative of money laundering activity.

Customs and IRS have developed unparalleled expertise in financial investigations which make them essential players in major Federal money laundering investigations.

Second, Treasury performs a unique data collection and financial analysis function built on the foundation of the Bank Secrecy Act.

This reporting and recordkeeping requirements of the Bank Secrecy Act assist in identifying criminal organizations by creating a paper trail to trace money back to illegal sources of funds. The currency reporting system has become an essential component of the U.S. financial enforcement program against money laundering, tax evasion and other criminal activity. It is relied upon by law enforcement agencies, not just to target suspicious activity, but to further ongoing investigations, prosecutions, and forfeiture actions in a variety of ways.

Under my responsibility, the Office of Financial Enforcement is responsible for Bank Secrecy Act enforcement and compliance.

Treasury has delegated responsibility for examination for compliance with the Bank Secrecy Act to the regulatory agencies according to the types of institutions they examine.

The key function of analysis of information reported under the Bank Secrecy Act now rests within FinCEN which also reports directly to the Assistant Secretary for Enforcement. FinCEN was established within Treasury, at Secretary Brady's initiative and with the support of the Office of National Drug Control Policy. Its mission is to provide a multi-source data access and financial analysis service to Federal, State, local and foreign law enforcement to assist in the investigation and prosecution of money laundering and other crimes. FinCEN will muster our resources in an efficient and effective way as we pair off against that most ingenious category of criminals, the money launderers.

The third major aspect of the Treasury money laundering program is international cooperation. Drug money laundering is a global problem that demands global solutions if we are to make meaningful progress. Therefore, Treasury is working on a number of initiatives to further our goals of forging a worldwide network of countries linked together with a common resolve to take effective measures against domestic and international money laundering.

The committee has asked Treasury to address the issue of reporting under section 6050I of the Internal Revenue Code. Since 1984, that section has required trades or businesses other than financial institutions subject to the Bank Secrecy Act to report cash received over $10,000 to the Internal Revenue Service. Similarly, under the Bank Secrecy Act domestic financial institutions must file Currency Transaction Reports on all currency transactions by, through, or to the institution in excess of $10,000. The reports under section 6050I are filed on IRS form 8300. These reports have utility far beyond tax enforcement and are of comparable interest to law enforcement as Currency Transaction Reports, especially in drug and drug money laundering cases.

The premise of all currency reporting, whether under 6050I or under the Bank Secrecy Act, is that large expenditures of cash—whether in financial institution deposits or purchases of goods and services—are frequently indicative of illegal activity. A cash transaction can be a helpful means for law enforcement in any number of ways. For instance, the information can be used to identify unknown targets or to help identify assets for forfeiture against known targets.

Currency transaction reports and other reports filed under Bank Secrecy Act are available for tax, regulatory and criminal investigations and proceedings. My office has issued detailed dissemination guidelines to ensure the proper use and dissemination of this sensitive financial data. Pursuant to these guidelines dissemination can be made upon written request by Federal, State and local, and foreign law enforcement authorities under appropriate circumstances. They are also available for regulatory and civil as well as for criminal enforcement purposes. Most important, the information is subject to analysis by FinCEN, which by applying a variety of analytical methods, including artificial intelligence, can identify possible targets for criminal violations as well as areas of possible noncompliance with the reporting requirements.

Because of the disclosure restrictions of section 6103 of the Internal Revenue Code, however, the 8300 reports have not been analyzed and disseminated to the same extent as currency transaction reports in the past. Prior to the Anti-Drug Abuse Act of 1988, 8300 information was unavailable to law enforcement for analytical purposes and was only available to Federal law enforcement agencies for nontax administrative purposes through the judicial proceeding of section 6103(i)(1) based on a name-specific request. At the administration's urging, an amendment was included in the 1988 drug bill adding section 6103(i)(8) to section 6103. Section 6103(i)(8) authorizes disclosure to Federal agencies for criminal enforcement purposes and was enacted with a 2-year sunset provision. We are pleased that the full committee has agreed to our request that this authority be extended for another 2 years through a provision in the pending crime bill, H.R. 5269.

The 1988 amendment means that, subject to IRS approval, Federal law enforcement agencies can have access to 8300 information through the IRS for criminal cases without recourse to a judicial proceeding and further that Treasury, through FinCEN, will be able to analyze the information and provide the results of our analysis to other Federal law enforcement agencies for action. However, State and local or foreign law enforcement agencies still cannot have access, nor can Federal or other agencies use it to pursue purely civil remedies.

Treasury has long been of the view that the disclosure of information collected in tax documents needs to be strictly limited. Treasury's support of special disclosure rules for form 8300 reports is based on the fact that such reports are very different from other tax documents and are comparable in purpose and use to the reports filed under the Bank Secrecy Act. What distinguishes a form 8300 report is that, unlike other tax documents or information returns, it provides information only with respect to a transaction that by its nature is suspect. Accordingly, it must be made clear that any special disclosure rules for form 8300 reports should not be viewed as precedent for broader exceptions to the general policy of nondisclosure of tax documents.

Chairman PICKLE. Mr. Nunez, if that is the case, what good will the form 8300 do for you? You said it was just an item for suspects, but you cannot use it for everything else. Should it be corrected?

Mr. NUNEZ. We will address that, Mr. Chairman, yes, sir.

Chairman PICKLE. Are you recommending that we should change form 8300?

Mr. NUNEZ. We think there are changes that should be made in the disclosure portions.

Chairman PICKLE. Are you making recommendations to us for those changes.

Mr. NUNEZ. We are about to make that recommendation now, yes, we are.

Chairman PICKLE. You are in the process of doing it as of now?

Mr. NUNEZ. Yes, sir.

Chairman PICKLE. There is a possibility that this has been transferred under the FinCEN Program, as recommended by Secretary Brady. But there has been no action. I don't want to interrupt your testimony, but have you actually convicted people under form 8300, you or agencies connected with our Government? Have any suits been brought because you have used form 8300 which was a disclosure used in cash?

Mr. NUNEZ. Mr. Chairman, we would defer to IRS on that. We have some information I can provide you. It is difficult for IRS to differentiate the prosecutions and——

Chairman PICKLE. We have talked about IRS, but I have to assume you don't know of any case where the suit has been brought and has resulted in a conviction?

Mr. NUNEZ. Not specifically, not that I know of. I know there have been some indictments, including one recently here in the Washington area.

Chairman PICKLE. You said you referred to to the IRS. In your testimony you say you did in 1988 subject this to IRS approval and that you can now use this 8300 without some kind of a judicial permission being given for the tax information. But even though you have, no case has been prosecuted on it.

It seems to me like you have the authority, but nothing has been done.

Mr. NUNEZ. Well, the authority has been given to IRS to share. I think the 8300 information has been made available to several other law enforcement agencies which have used it, but I cannot tell you the number of cases that specifically resulted in 8300 prosecutions.

Chairman PICKLE. Go ahead with your testimony.

Mr. NUNEZ. To accommodate both law enforcement needs and the general policy of nondisclosure of tax documents, we believe the subcommittee should consider, after reviewing all the ramifications, removing cash reporting provisions from sections 6050I, 6103, and 6721 and creating a separate chapter under title 26 for reporting for money laundering enforcement purposes.

We envision that the authority under this new chapter would be administered in a manner similar to the administration of the authority of the Bank Secrecy Act and would be delegated from the Secretary through the Office of the Assistant Secretary for Enforcement. The reports would no longer be considered as tax returns subject to the restrictions of section 6103.

The chapter would specify that information filed under the chapter would be available to the same extent and under the same dissemination guidelines as Bank Secrecy Act information. In this way, access would be given to State and local authorities, and in some cases to foreign law enforcement officials. The reports would also be available for civil as well as criminal purposes. At the same time, restrictions and disclosure of tax documents would not be compromised under this approach.

Recognizing this similarity between 6050I information and Bank Secrecy Act data, Ms. Gomez of the Office of Financial Enforcement recently headed a working group with the IRS to improve the 8300 form and regulations to assure that the extent and quality of the information collected under section 6050I was comparable to the information collected under the Bank Secrecy Act.

Justice, Customs and FinCEN also contributed to this project. As a result of the work of this group, the 8300 report now is virtually identical in content to the CTR. This will facilitate analysis and comparison of the two forms by FinCEN. The regulations also were improved, especially with respect to the reporting of aggregated transactions, with respect to related transactions which when combined, exceed $100,000. The new regulations assure that a full and accurate picture of related transactions will be available for law enforcement.

Since the Treasury bureaus—Customs, ATF, Secret Service and FinCEN—received access to 8300 information in August 1989, we have been making good use of the data. The information is available through TECS, the Treasury Enforcement Crime System, a data base maintained by the U.S. Customs Service which also houses the Bank Secrecy Act information.

Access is pursuant to careful security procedures approved by IRS to guard the security of the data and facilitate accounting reviews by creating an audit trail for disclosures. These security procedures are similar to the procedures that apply to Bank Secrecy Act information, but of course, with special care taken to make sure the information, and any FinCEN analysis based on the information, are only disseminated within Treasury and only for criminal enforcement purposes, in accordance with section 6103. For instance, each time a Treasury user access the data by the name of person or other identifier, a special warning about the restrictions on the use of the information flashes on the computer screen.

For the period January 1, 1990, through June 30, 1990, Customs and FinCEN together made almost 20,000 requests for form 8300 information through TECS either by name of a person or by taxpayer identification number. The Bureau of Alcohol, Tobacco and Firearms made 175 such requests in that time period.

In addition, FinCEN analysts and certain Customs analysts have accessed form 8300 information for analytical purposes through what is called the "data query" method where a specific name or TIN is not known. For example, a query could be made of all forms 8300 filed relating to real estate or car sales in a certain Zip Code. The number of such queries is not known as an audit trail with respect to them is not currently tracked as a routine matter, but can be retrieved upon special request.

Most of the Customs requests are generated from agents in the field. It is routine Customs policy for agents to review the data in the TECS system, including form 8300 information, in all criminal cases, for example, Customs fraud, illegal exports of high technology, and drug and money laundering cases. The purpose of the review is to identify assets and business contacts of the suspect, potential conspirators and, in some cases, witnesses. Customs advises that the information has been invaluable in its investigations.

FinCEN views the 8300 data as a very valuable research tool and a critical component of its financial analysis in money laundering cases and potentially in a number of other types of cases, including savings and loan fraud cases. In a moment, I will turn to Ms. Altenstadter to discuss the many applications of the information that are underway at FinCEN.

The committee has also asked us to describe the Treasury Inspector General's Report issued earlier this year on "The Office of Financial Enforcement's Implementation of the Bank Secrecy Act" and the steps Treasury has taken in response to the report.

These issues are related in great length in my written statement.

In sum, in just 6 months, the Office of Financial Enforcement has substantially reduced the number of pending civil penalty cases from over 200 to about 100 active cases—all but 23 of these cases have been substantively completed. The Office of Financial Enforcement does not consider this to be a backlog, but rather the normal case load for the office. Indeed, since April, the Office of Financial Enforcement has received 33 new civil penalty referrals.

In conclusion, the Treasury commends the Chairman and members of the subcommittee for calling a hearing on form 8300 compliance issues. The Treasury believes this to be a critical area for law enforcement's assault on money launderers. We are interested in working closely with the Ways and Means Committee to encourage compliance without unduly burdening industry and taxpayers.

I will now turn to Ms. Altenstadter to discuss FinCEN, and following her remarks, I would be happy to address the committee's questions.

At this point I would like to turn to Ms. Altenstadter to have her describe FinCEN, if that is appropriate at this time.

[The prepared statement and attachments follow:]

STATEMENT OF
THE HONORABLE PETER K. NUNEZ
ASSISTANT SECRETARY OF THE TREASURY FOR ENFORCEMENT
UNITED STATES DEPARTMENT OF THE TREASURY
BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON OVERSIGHT
SEPTEMBER 20, 1990

Introduction

Mr. Chairman and Members of the Committee, I would like to thank you for this opportunity to testify about Treasury's role in the fight against money laundering and the criminal enterprises it sustains.

With me today is Shelley G. Altenstadter, Deputy Director of the Treasury Financial Crimes Enforcement Network, and Amelia A. Gomez, Special Advisor to the Office of Financial Enforcement and former Deputy Director of that Office. Ms. Altenstadter will follow my remarks with a discussion of the mission and operations of FinCEN, and both Ms. Altenstadter and Ms. Gomez will assist me in responding to the Committee's questions. The Director of FinCEN, Brian M. Bruh, and Director of the Office of Financial Enforcement, Amy G. Rudnick, would have joined me at this hearing, but were unable to do so because of religious observances.

Role of the Department of the Treasury and the Assistant Secretary for Enforcement

Secretary Brady and Deputy Secretary Robson have placed money laundering at the forefront of Treasury's enforcement priorities. We recognize that it is in the area of anti-money laundering activities that Treasury can make our most significant contribution to the War on Drugs.

Money laundering is a complex economic crime that demands a thorough understanding of how financial institutions and other businesses operate in order to prevent their abuse. Treasury brings to the problem the perspective of a law enforcement agency, a financial institution regulatory agency, and the agency concerned with the overall condition of our domestic and international financial systems.

We understand law enforcement concerns. We also appreciate the necessity of balancing law enforcement needs with other legitimate considerations such as the costs of enforcement measures to financial institutions and other businesses and issues such as financial and taxpayer privacy. Achieving the appropriate balance is a challenge shared by the Administration and Congress as we seek solutions to this problem.

Our experience has taught us that significant progress can only be made against drug trafficking, and the money laundering that fuels it, by painstaking, sophisticated financial analysis on our part. In this way, we can uncover the tangled web of financial dealings of drug and other criminal organizations so that we might deprive the organizations of their ill-gotten gains. Given the international character of drug trafficking and money laundering, this analysis cannot stop at any border, but depends upon the active and willing cooperation of other countries committed to equally stringent anti-money laundering measures.

Treasury's anti-money laundering program can be characterized as following three related tracks -- criminal investigation, collection and analysis of data in support of money laundering and other financial crimes, and promotion of international cooperation.

First, Treasury shares with the Justice Department and the Postal Service investigatory authority for the crime of money laundering (18 U.S.C. 1956 and 1957). Treasury's authority is exercised by delegations from my office to IRS (Criminal Investigation Division), Customs, the Bureau of Alcohol, Tobacco and Firearms and the Secret Service. Each bureau's money laundering authority is generally related to its jurisdiction for the various crimes underlying money laundering.

The U.S. Customs Service and the Internal Revenue Service (IRS) also have been delegated authority to investigate criminal violations of the Bank Secrecy Act -- IRS with respect to domestic currency transaction (CTR) reporting, Customs with respect to the reporting of international transportation of currency and monetary instruments (CMIR), and both Customs and IRS with respect to the annual requirement to report foreign accounts (FBAR). Reporting violations are frequently indicative of money laundering activity, carry severe criminal sanctions, and can be prosecuted without proof of the source of the money.

Customs and IRS have developed unparalleled expertise in financial investigations which make them essential players in major federal money laundering investigations. Appended to my testimony, and submitted for the record, are statistics regarding the number of money laundering and Bank Secrecy Act criminal investigations initiated by the Treasury bureaus.

Second, Treasury performs a unique data collection and financial analysis function built on the foundation of the Bank Secrecy Act.

The reporting and recordkeeping requirements of the Bank Secrecy Act assist in identifying criminal organizations by creating a paper trail to trace money back to illegal sources of funds. The currency reporting system has become an essential component of the U.S. financial enforcement program against money laundering, tax evasion and other criminal activity. It is relied upon by law enforcement agencies, not just to target suspicious activity, but to further ongoing investigations, prosecutions, and forfeiture actions in a variety of ways. The recordkeeping provisions, while less celebrated, are an equally vital component to successfully pursuing money laundering cases. The recordkeeping provisions, as exercised through Treasury regulations, assure that the records necessary to reconstruct past financial activities will be complete, retained, and retrievable in case of a future investigation or prosecution.

Under my responsibility, the Office of Financial Enforcement is responsible for Bank Secrecy Act enforcement and compliance, including the issuance of regulations, interpretations and administrative rulings; the assessment of civil penalties; international law enforcement initiatives aimed at combating money laundering; and monitoring a series of delegations to IRS and to the regulatory agencies which examine the various types of financial institutions subject to the reporting and recordkeeping provisions of the Bank Secrecy Act.

Treasury has delegated responsibility for examination for compliance with the Bank Secrecy Act to the regulatory agencies according to the types of institutions they examine. For instance, the Federal Reserve Board is responsible for state chartered member banks, the FDIC for state chartered banks that are not Federal Reserve members, and the Comptroller of the Currency for national banks. Compliance responsibility for the various miscellaneous or nonbank financial institutions subject to the Bank Secrecy Act such as transmitters of funds, check cashers, foreign currency brokers, and casinos rests with the IRS Examination Division. Customs is responsible for enforcement of the CMIR requirement.

A critical function of the Office of Financial Enforcement is to develop and update the regulations promulgated under the Bank Secrecy Act to ensure that the regulations respond to changing law enforcement needs, that the quality and extent of the information available in investigations and for analysis are at an optimal level, and that compliance by financial institutions with the reporting and recordkeeping requirements is efficient and effective.

For instance, most recently, we have been considering how best to apply Treasury's regulatory authority to the problem of money laundering through funds transfers, especially international wire transfers. After months of analysis and discussion with the banking industry and law enforcement, we will be issuing a Notice of Proposed Rulemaking on this subject within the next two weeks. Treasury will propose that the records maintained by banks and non-bank financial institutions on funds transfers be enhanced to facilitate the ability of law enforcement to follow the trail of funds in money laundering and other financial investigations. The Office of Financial Enforcement together with FinCEN continue to evaluate the feasibility of reporting of funds transfer either on a routine or selective basis.

Another regulatory proposal addresses the issue of efficient compliance by financial institutions. On September 6, 1990, Treasury issued a Notice of Proposed Rulemaking requiring that all large filers (over 1000 filings per year) of Currency Transaction Forms file by magnetic tape rather than by paper. This proposal will speed the filing and increase the accuracy of information filed and save costs for both Treasury (IRS) and financial institutions. In that same notice, Treasury also proposed that non-bank financial institutions and larger banks be required to have automated or manual systems to capture multiple transactions by the same person that exceed $10,000 on a given business day. Up until now, Treasury has recommended aggregation systems and most major banks have instituted such programs, but they are not required. Treasury believes the time has come to require systems to guard against "smurfing", structuring transactions in amounts under $10,000 to avoid the reporting requirements.

The key function of analysis of information reported under the Bank Secrecy Act now rests within FinCEN which also reports directly to the Assistant Secretary for Enforcement. FinCEN was established within Treasury, at Secretary Brady's initiative and with the support of the Office of National Drug Control Policy, to provide a multi-source data access and financial analysis service to Federal, State, local and foreign law enforcement to assist in the investigation and prosecution of money laundering and other crimes. In performing this analysis function, FinCEN will build on Treasury's experience over the years in analyzing Bank Secrecy Act and other financial data. The Customs unit formerly responsible for Bank Secrecy Act data analysis function has been incorporated into FinCEN.

FinCEN represents an innovative and fresh approach to financial analysis. For the first time, experts from law enforcement, regulatory agencies, and the private sector will work together routinely to apply their collective expertise to the issue of money laundering and other financial crimes. FinCEN will muster our resources in an efficient and effective way as we pair off against that most ingenious category of criminals -- the money launderers. Ms. Altenstadter shortly will discuss with you FinCEN's role and work in more detail.

The third major aspect of the Treasury money laundering program is international cooperation. Drug money laundering is a global problem that demands global solutions if we are to make meaningful progress. Therefore, Treasury is working on a number of fronts to further the United States goal of forging a worldwide network of countries linked together with a common resolve to take effective measures against domestic and international money laundering.

Our most important recent initiative is the U.S. participation in the G-7 Financial Action Task Force on money laundering. This Task Force was convened at the direction of the 1989 G-7 Economic Summit to study measures that have been taken to prevent utilization of financial institutions by money launderers and to make recommendations on how to improve international cooperation against money laundering. Its members include the G-7 and eight other financial center countries.

Deputy Secretary John E. Robson serves as the chairman of the U.S. Delegation, which consists of delegates from Treasury, including Customs and the Office of the Comptroller of the Currency, the Department of State, the Department of Justice, FBI, DEA, and the Federal Reserve Board.

The Task Force met in late 1989 and early 1990, and in April, 1990, issued a report with 40 action recommendations. These recommendations, as they are implemented by the member countries, should establish a nucleus of comprehensive programs to address money laundering and will facilitate cooperation in international investigations, prosecutions, and forfeiture actions. The report is the single most comprehensive, forceful international declaration on money laundering to date.

This summer the Houston Summit reconvened the group for another year to study how the countries are implementing the recommendations and how to expand the number of financial center countries who embrace the recommendations. We anticipate that the first meeting of the reconvened task force will be within the next month.

Treasury also chairs the U.S. delegation to a similar ongoing initiative that focuses on money laundering in the Caribbean area -- the Caribbean Drug Money Laundering conference. Among the recommendations under consideration by that group is that the countries study the utility and feasibility of cash reporting by trades or businesses other than financial institutions similar to our IRS Form 8300 reporting system which I will discuss later.

Another undertaking is underway in the Organization of American States ("OAS") to draft model laws, including money laundering laws, in conformity with the U.N. Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. Treasury is assisting the Justice Department in this effort.

Treasury is also giving priority to negotiating agreements under Section 4702 of the Anti-Drug Abuse Act of 1988. That provision requires the Secretary of the Treasury to negotiate with countries that do business in U.S. currency to require their financial institutions to keep records of large U.S. dollar currency transactions, and to share those records with U.S. law enforcement authorities upon request. The Secretary is to place highest priority on those countries whose financial institutions may be engaging in transactions involving the proceeds of international narcotics trafficking, particularly U.S. drug sales.

We have slated twenty-one countries for negotiation. Discussions with or approaches to the countries are at various stages. We will report to Congress on the status of these negotiations in November.

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The Committee has also asked Treasury to address the issue of reporting under section 6050I of the Internal Revenue Code. Since 1984, that section has required trades or businesses other than financial institutions subject to the Bank Secrecy Act to report cash received over $10,000 to the Internal Revenue Service. (Similarly, under the Bank Secrecy Act domestic financial institutions must file Currency Transaction Reports on all currency transactions by, through, or to the institution in excess of $10,000.) The reports under section 6050I are filed on IRS form 8300. These form 8300 reports have utility far beyond tax enforcement and are of comparable interest to law enforcement as Currency Transaction Reports, especially in drug and drug money laundering cases.

The premise of all currency reporting is that large expenditures of cash -- whether in financial institution deposits or purchases of goods and services -- are frequently indicative of illegal activity. A cash transaction can be a helpful piece of data for law enforcement in any number of ways. For instance, the information can be used to identify unknown targets or to help identify assets for forfeiture. In drug and drug money laundering cases, the utility of data obtained through CTR reporting by financial institutions and reporting by other trades or businesses is essentially the same. It makes little difference whether the drug dealer purchases an airplane with cash, a transaction reported by the airplane dealer under 6050I, whether he takes out a bogus loan at a finance company and pays the loan with cash, also reported by the finance company under 6050I, or whether he deposits the funds and buys a cashier's check, a transaction reported by the bank under the Bank Secrecy Act. The important fact is the cash expenditure.

Currency Transaction Reports and other reports filed under Bank Secrecy Act are available for tax, regulatory and criminal investigations and proceedings. My office has issued detailed dissemination guidelines to insure the proper use and dissemination of this sensitive financial data. Pursuant to these guidelines dissemination can be made upon written request by federal, state and local, and foreign law enforcement authorities under appropriate circumstances. They are also available for regulatory and civil as well as for criminal enforcement purposes. Most important, the information is subject to analysis by FinCEN, which by applying a variety of analytical methods, including artificial intelligence, can identify possible targets for criminal violations as well as areas of possible non-compliance with the reporting requirements. The results of the analysis can be disseminated to the appropriate federal, state and local, and, in limited cases, foreign agencies for action.

Because of the disclosure restrictions of section 6103 of the Internal Revenue Code (which protects the disclosure of taxpayer information), however, the 8300 reports have not been analyzed and disseminated to the same extent as currency transaction reports in the past. Prior to the Anti-Drug Abuse Act of 1988, 8300 information was unavailable to law enforcement for analytical purposes and was only available to Federal law enforcement agencies for non-tax administrative purposes through the judicial proceeding of section 6103(i)(1) based on a name-specific request. At the Administration's urging, an amendment was included in the 1988 drug bill adding section 6103(i)(8) to section 6103. Section 6103(i)(8) authorizes disclosure to federal agencies for criminal enforcement purposes and was enacted with a two-year sunset provision. We are pleased that the full Committee has agreed to our request that this authority be extended for another two years through a provision in the pending crime bill, H.R. 5269.

The 1988 amendment means that, subject to IRS approval, federal law enforcement agencies can have access to 8300 information through the IRS for criminal cases without recourse to a judicial proceeding and that Treasury, through FinCEN, will be able to analyze the information and provide the results of our analysis to other federal law enforcement agencies for action. However, state and local or foreign law enforcement agencies cannot have access, nor can federal or other agencies pursuing purely civil remedies.

Treasury has long been of the view that the disclosure of information collected in tax documents needs to be strictly limited. Treasury's support of special disclosure rules for form 8300 reports is based on the fact that such reports are very different from other tax documents and, from a law enforcement perspective, are comparable in purpose and use to the reports filed under the Bank Secrecy Act. What distinguishes a form 8300 report is that, unlike other tax documents, it provides information only with respect to a transaction that by its nature is suspect. Accordingly, it must be made clear that any special disclosure rules for Form 8300 reports should not be viewed as precedent for broader exceptions to the general policy of nondisclosure of tax documents.

To accommodate both law enforcement needs and the general policy of nondisclosure of tax documents, we believe the Subcommittee should consider, after reviewing all the ramifications, to removing cash reporting provisions from sections 6050I, 6103 and 6721 and creating a separate chapter under Title 26 for reporting for money laundering enforcement purposes. We envision that the authority under this new chapter would be administered in a manner similar to the administration of the authority of the Bank Secrecy Act and would be delegated from the Secretary through the Office of the Assistant Secretary for Enforcement. The reports would no longer be considered as tax returns subject to the restrictions of section 6103. The chapter would specify that information filed under the chapter would be available to the same extent and under the same dissemination guidelines as Bank Secrecy Act information. In this way access would be given to state and local authorities and in some cases to foreign law enforcement officials. The reports would also be available for civil as well as criminal purposes. At the same time, restrictions and disclosure of tax documents would not be compromised under this approach.

Recognizing this similarity between 6050I information and Bank Secrecy Act data, Ms. Gomez of the Office of Financial Enforcement recently headed a working group with the IRS to improve the 8300 form and regulations to assure that the extent and quality of the information collected under section 6050I was comparable to the information collected under the Bank Secrecy Act. Justice, Customs, and FinCEN also contributed to this project. As a result of the work of this group, the 8300 report now is virtually identical in content to the CTR. This will facilitate analysis and comparison of the two forms by FinCEN. The regulations also were improved, especially with respect to the reporting of aggregated transactions, with respect to related transactions which when combined exceed $10,000. The new regulations assure that a full and accurate picture of related transactions will be available for law enforcement.

Since the Treasury bureaus (Customs, ATF, Secret Service and FinCEN) received access to 8300 information in August 1989, we have been making good use of the data. The information is available through TECS, the Treasury Enforcement Crimes System, a data base maintained by the U.S. Customs Service which also houses the Bank Secrecy Act information. Access is pursuant to careful security procedures approved by IRS to guard the security of the data and facilitate accounting reviews by creating an audit trail for disclosures. These security procedures are similar to the procedures that apply to Bank Secrecy Act information, but of course, with special care taken to make sure the information, and any FinCEN analysis based on the information, are only disseminated within Treasury and only for criminal enforcement purposes, in accordance with section 6103. For instance, each time a Treasury user accesses the data by the name of person or other identifier, a special warning about the restrictions on the use of the information flashes on the computer screen.

For the period January 1, 1990 through June 30, 1990, Customs and FinCEN together made almost 20,000 requests for form 8300 information through TECS either by name of a person or by taxpayer identification number. The Bureau of Alcohol, Tobacco and Firearms made 175 such requests in that time period.

In addition, FinCEN analysts and certain Customs analysts have accessed form 8300 information for analytical purposes through what is called the "data query" method where a specific name or TIN is not known. For example, a query could be made of all forms 8300 filed relating to real estate or car sales in a certain zip code. The number of such queries is not known as an audit trail with respect to them is not currently tracked as a routine matter, but can be retrieved upon special request.

Most of the Customs requests are generated from agents in the field. It is routine Customs policy for agents to review the data in the TECS system, including Form 8300 information, in all criminal cases, e.g., Customs fraud, illegal exports of high technology, and drug and money laundering cases. The purpose of the review is to identify assets and business contacts of the suspect, potential conspirators and, in some cases, witnesses. Customs advises that the information has been invaluable in its investigations.

FinCEN views the 8300 data as a very valuable research tool and a critical component of its financial analysis in money laundering cases and potentially in a number of other types of cases, including savings and loan fraud cases. In a moment, I will turn to Ms. Altenstadter to discuss the many applications of the information that are underway at FinCEN.

Audit Report of the Office of the Inspector General and Bank Secrecy Act Civil Penalties

The Committee has also asked us to describe the Treasury Inspector General's Report issued earlier this year on "The Office of Financial Enforcement's Implementation of the Bank Secrecy Act" and the steps Treasury has taken in response to the report.

On January 10, 1990, the Office of Inspector General issued its Audit Report on the Office of Financial Enforcement's Implementation of the Bank Secrecy Act. In the report, the Inspector General commended the Office of Financial Enforcement for its numerous initiatives to improve understanding and utilization of the Bank Secrecy Act, including its participation in many Bank Secrecy Act and money laundering courses, conferences, and seminars; its revisions of the BSA regulations and forms used by the public for fulfilling BSA requirements; its issuance of an "Exemption Handbook" for the filing of CTRs, administrative rulings and hundreds of informal letter rulings interpreting the Bank Secrecy Act; its revision of Bank Secrecy Act dissemination guidelines to facilitate Federal, state and local law enforcement agencies obtaining access to information from the Treasury Financial Data Base; and its consistent identification and application of civil penalties.

The Inspector General found that these "initiatives have had a positive effect on the number of BSA forms filed and the increased utilization of the BSA data." The Inspector General further found that the Office of Financial Enforcement was adequately addressing its international responsibilities, including its obligations under section 4702 of the Anti-Drug Abuse Act (the "Kerry Amendment").

The only area where the Inspector General found that improvements were needed in the Office of Financial Enforcement's implementation of the Bank Secrecy Act was in the management of its civil monetary penalty referrals. While the Inspector General found that the office consistently identified and applied civil penalties, it determined that the office had a growing backlog of civil penalty cases. At the time of the audit, there were over 200 pending cases. The Inspector General attributed the backlog "primarily to a lack of staffing and, to a lesser extent, a low priority and inadequate written procedures for processing civil penalty cases."

All of the Inspector General's 10 recommendations related to civil penalty cases. They ranged from re-evaluating Office of Financial Enforcement staffing and making civil penalty processing a higher priority, to revising and incorporating procedures for processing cases and determining what further information is needed in the computer database. The Inspector General also made recommendations to improve internal controls to ensure accurate data base information and to require the regulatory agencies to compare referral data to the listing of the Office of Financial Enforcement. Only four of the recommendations remain open, and they are being acted upon.

Treasury long ago recognized, as did the Inspector General, that while the Office of Financial Enforcement did an excellent job in consistently identifying and assessing civil penalties, there nonetheless existed a backlog of civil penalty cases. While the Inspector General attributed the backlog "primarily" to a lack of staff, we firmly believe that the only cause of the Office of Financial Enforcement's past backlog was the serious and longstanding shortage of staff in the office. The Office of Financial Enforcement has had civil penalty guidelines in place since May, 1988, and written procedures for handling civil penalty cases since December, 1988. The Office of Financial Enforcement also has tracked civil penalty cases since 1985. Changes to any of these processes at any earlier time would not have significantly reduced the backlog.

Since the Inspector General's audit was conducted, Treasury again has re-evaluated its staffing needs. This has resulted in the hiring of one permanent Bank Secrecy Act Compliance Specialist to work on civil penalty cases. In addition, in April, 1990, in response to Deputy Secretary Robson's request, the Treasury bureaus and agencies assigned seven full-time and experienced details (five compliance specialists and two secretaries) to eliminate the civil penalty backlog. The details did an excellent job in developing the cases and identifying those cases that should be pursued for civil penalties. They reviewed all the cases that were pending as of April 12, 1990. Since April 12, 1990, 100 cases have been closed or are in the process of being closed without penalties, 24 cases are being pursued actively for civil penalties, and one financial institution has been assessed a civil penalty. Fifty cases are either under criminal investigation or being reviewed by IRS Criminal Investigation Division to determine whether criminal action is appropriate. Two Bank Secrecy Act Compliance Specialists and one secretary are still detailed to Office of Financial Enforcement to assist the permanent staff in developing the remaining cases.

In sum, in just six months, the Office of Financial Enforcement has substantially reduced the number of pending civil penalty cases from over two hundred to about one hundred active cases -- all but 23 of these cases have been substantively completed. The Office of Financial Enforcement does not consider this to be a backlog, but rather the normal caseload for the office. Indeed, since April, the Office of Financial Enforcement has received 33 new civil penalty referrals.

What has Treasury been doing to ensure that it will not again have a civil penalty backlog? One of the things that Treasury learned from its special team of details is that many of the referrals that were made to the office were not significant enough to warrant penalties. Other violations were properly referred, but were not sufficiently developed to determine whether they should be pursued for civil penalties or were lacking necessary documentation. To ensure that only significant violations of the BSA regulations are referred to Treasury and to assist the regulatory agencies in improving the quality of Bank Secrecy Act civil penalty referrals to facilitate their timely disposition, the Office of Financial Enforcement and the team have drafted revised and comprehensive Bank Secrecy Act referral guidelines. These guidelines, when finalized, should considerably reduce the workload of the Office of Financial Enforcement. The guidelines have been circulated in draft to the regulatory agencies for comment.

Staffing

Before turning to FinCEN, I want to address the last matter the Committee has asked Treasury to discuss, the staff resources that have been dedicated to Treasury's money laundering programs from 1985 through 1990. IRS will address the issue of resources for 8300 enforcement.

IRS advises that the number of staff years dedicated to criminal money laundering enforcement has increased from 146 years in fiscal year 1984, to 188 staff years in 1990. The resources for processing Bank Secrecy Act data which is processed by IRS Detroit Computer Center has increased from 143 staff years, to 528 years in fiscal year 1990 (including processing by contractors). The IRS Examination resources for examination of non-bank financial institutions under the Bank Secrecy Act increased from 3 staff years in fiscal year 1985, to 29 staff years in fiscal year 1989. This figure represents actual time used for examination and equates to roughly 45-60 staff years.

Customs resources for money laundering and Bank Secrecy Act Enforcement have increased from 238 staff years in 1985 to 533 staff years in 1990.

FinCEN has 125 employees on board, 37 of whom are details from other Treasury bureaus and other Federal agencies. For fiscal year 1991, the FinCEN budget request calls for 148 FinCEN employees.

Currently, Treasury's Office of Financial Enforcement has six full time employees: a Director, a Deputy Director, an International Affairs Specialist, a BSA Compliance Supervisor, a BSA Compliance Specialist, and a Compliance Research Analyst. For instance, recently the Office of Financial Enforcement had the civil penalty task force detailed to it, as discussed above. Also, two persons now are detailed to work exclusively on Section 4702 matters and two persons to work on regulatory interpretations. If enacted, the Senate Treasury appropriations bill would fund seven additional slots for the Office of Financial Enforcement.

Five years ago, Office of Financial Enforcement staffing consisted of three full-time employees. Ten years ago, only two full-time employees were devoted to Bank Secrecy Act matters.

Conclusion

In conclusion, the Treasury commends the Chairman and members of the Subcommittee for calling a hearing on form 8300 compliance issues. The Treasury believes this to be a critical area for law enforcement's assault on money launderers. We are interested in working closely with the Ways and Means Committee to encourage compliance without unduly burdening industry and taxpayers.

I will now turn to Ms. Altenstadter to discuss FinCEN, and following her remarks, I would be happy to address the Committee's questions.

EXHIBIT TO ASSISTANT SECRETARY NUNEZ' TESTIMONY

U.S. CUSTOMS SERVICE
MONEY LAUNDERING - BSA ENFORCEMENT

	1985	1986	1987	1988	1989	1990
Total Estimated Man Years:	237.7	329.2	320.3	389.2	514.5*	533.5*
Total Cases Investigated:	2,664	3,099	2,918	3,444	4,355	4,579
Number Currency Seizures:		1,386	2,125	3,064	4,084	3,881
Value Currency Seizures:	$95.8	$122.0	$101.1	$165.3	$224.9	$269.0
Currency Arrests:	1,202****	883	870	835	701	901
Indicted:	1,476****	807	796	715	762	729
Convictions:	759****	602	641	492	455	533
Dismissal:		34	55	38	51	90
Civil Penalties:	n/a	n/a	n/a	$9.2	$34.6	
Currency Forfeited:**				$41.4	$82.4	$59.7
Currency Mitigations:***					8.6	$12.4

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* Includes Inspectors working outbound currency inspections
** Tracking of Currency Forfeitures Began in FY 88
*** Tracking of Currency Mitigations Began in FY 89
****Some statistics from FY 84 included.

Statistics to date, August 31, 1990

EXHIBIT TO ASSISTANT SECRETARY NUNEZ'
TESTIMONY

Criminal Investigation Cases Involving Money Laundering

Fiscal Year	1986	1987	1988	1989	1990(#)
Cases Initiated	574	689	679	1,132	1,100
Discontinued Cases	129	155	142	179	153
Prosecution Recommendations	472	539	567	813	710
Total Cases Closed	601	694	844	992	863
Total Declinations	44	57	83	90	68
Total Convictions	196	285	319	397	451
T/P's Sentenced to Prison	135	153	228	342	291
Average Prison Term (In Months)	71.5	58.6	70.0	82.7	71.1
Amounts of Fines (In Thousands)	8,643	6,620	10,578	6,883	8,674
Fines Collected:	Fine collection is administered by the U.S. Marshals Service; IRS has no reliable data.				
Total Staff Years	346	379	520	658	379
Staff Years per Closed Case	.575	.546	.616	.777	.439

(#) Data as of 6/30/90.

Ms. ALTENSTADTER. As stated, Director Brian Bruh, of the Financial Crimes Enforcement Network, was not able to be here today. I would like to submit his statement for the record, and then give a short summary.

Please excuse my enunciation. Recently I have had orthodontic work, but I will try to enunciate distinctly.

Chairman PICKLE. Without objection, the statement will be included in the record.

Ms. ALTENSTADTER. At the present outset, I would like the subcommittee to understand the stage of FinCEN's development. The organization was formally established and funded only 5 months ago. It is now about 60 percent staffed and I am pleased to be able to report that FinCEN is already producing tactical and strategic intelligence products and providing support to antimoney laundering efforts.

FinCEN is comprised of a core staff and personnel on detail from Federal law enforcement agencies and regulatory agencies.

In your invitation, you had requested that several specific issues be addressed. I will attempt to respond to each issue in this statement.

First, a brief description FinCEN's involvement in law enforcement efforts targeted toward money laundering and of how data bases available to FinCEN are used in its operations.

FinCEN maintains an operation center from which it provides immediate responses to queries from participating agencies for information in support of ongoing investigations. In addition, the tactical support function of FinCEN provides for longer term analysis of information relating to money laundering and other financial crimes. Information is disseminated to aid in specific investigations of criminal activity. Strategic intelligence products also are developed by FinCEN on trends and methods and geographical patterns of money laundering. These products are used to make decisions on resource allocations, strategy modification and special projects.

Finally, FinCEN's research and development function is involved in studies and strategies relating to long-term issues that affect law enforcement, as well as the regulatory and private sector fight against money laundering. FinCEN has provided a forum in which representative of law enforcement, legislators, regulatory officials, and representatives from the private sector can meet and discuss issues that impact upon the areas of financial law enforcement.

FinCEN now has access to a number of data bases. The Treasury Enforcement Communication System, TECS, includes access to the National Crime Information Center, NCIC; the National Law Enforcement Telecommunication System; NLETS, and the Treasury Financial Data Base. The Treasury data base contains currency transaction reports (CTRs). Report of international transportation of currency (CMIRs), Casino CTRs; report of cash payments over $10,000 received in a trade business (form 8300) and the report of foreign bank and financial accounts (FBAR).

Some examples of how data is used in FinCEN's operations are: FinCEN has developed information on an international money laundering operation involving hundreds of millions of dollars. Our information bridged the gap among four separate but parallel investigations being conducted by Federal and foreign law enforcement agencies. An unified strategy has now been developed.

In another instance, FinCEN conducted an analysis of six similar businesses in a large city in the Southwest United States. Our analysis revealed that five out of the six businesses were filing significantly fewer form 8300s than would account for the volume of CTRs filed on their behalf. Additional queries revealed that one of the business owners has been identified by two law enforcement agencies as a possible narcotics trafficker who was suspected of using private aircraft to transport contraband.

Three, FinCEN has an artificial intelligence (AI) targeting system to provide leads to agencies on potential money laundering cases and organizations. FinCEN uses the AI system to analyze CTR and CMIRs to indicate suspicious patterns of activity. We are in the process of reengineering this system to enhance its processing capabilities and to include the capability of analyzing the 8300 forms together with the CMIR and CTR forms.

How do law enforcement agencies interact with FinCEN? We are already providing support to Federal law enforcement agencies that seek our assistance telephonically or in written form. Our support is also provided in the form of tactical, strategic and research products that are generated on our own initiative. FinCEN is, or soon will be, providing support to several task forces, including Operation Green Back in Florida and organized crime and drug enforcement task forces (OCDETFs) which include Federal, State, and local agencies.

Early in 1991, we expect to take delivery of the computer software and hardware necessary to establish the local area network (LAN), which will house the FinCEN data base. The FinCEN data base will capture in one location information not available elsewhere in law enforcement.

In addition, FinCEN recently proposed to develop and maintain a consolidated data base for the criminal referral forms filed by financial institutions with the respective regulatory agencies. This will provide for a central location of all such referrals and capture the information in a standard format, thus, facilitating quicker and more accurate analysis.

FinCEN has often found that form 8300 and the Bank Secrecy Act information present closely related elements of the same picture. Form 8300 information is used in connection with a number of projects as follows: one, in the analysis of potential targets for investigation; two, in the analysis of patterns of currency movements; three, in support of ongoing investigations; and, four, support for seizures or other processes.

We agree with the recommendation of Assistant Secretary Nunez that the life of the rules relating to 8300 information that are found in section 6103 of the IRS Code should be extended.

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to make this statement. I would happy to answer any questions that you may have. Thank you.

[The prepared statement of Brian Bruh follows:]

STATEMENT OF
BRIAN M. BRUH, DIRECTOR
FINANCIAL CRIMES ENFORCEMENT NETWORK (FinCEN)
UNITED STATES DEPARTMENT OF THE TREASURY
BEFORE THE HOUSE COMMITTEE ON WAYS AND MEANS
SUBCOMMITTEE ON OVERSIGHT
SEPTEMBER 20, 1990

Mr. Chairman and distinguished members of the subcommittee, I am pleased to have been invited as a witness to testify before you on such an important topic - money laundering. As Assistant Secretary Nunez has already testified, the Financial Crimes Enforcement Network is a key part of the anti-money laundering strategy of the Treasury Department. FinCEN, as it is commonly called, was established as an office in the Office of the Assistant Secretary (Enforcement), April 25, 1990, by order of the Secretary of the Treasury. The mission of FinCEN is to provide a government-wide, multi-source intelligence and analytical network to support Federal, state, local and international law enforcement efforts in the detection, investigation and prosecution of money laundering and other financial crimes.

At the outset, I would like the Subcommittee to understand the stage of FinCEN's development. The organization was formally established and funded only five months ago. It is now about 60 percent staffed and I am pleased to be able to report that FinCEN is already producing tactical and strategic intelligence products and providing support to anti-money laundering efforts. We are continuing to complete our staffing and the procurement of the advanced data processing equipment necessary to further FinCEN's ability to perform its mission.

As noted in the 1990 National Drug Control Strategy, FinCEN is the Treasury Department's central mechanism for the analysis and dissemination of drug-related financial intelligence. FinCEN is comprised of a core staff of Treasury Department employees and other personnel detailed to FinCEN, including investigators and analysts from Treasury law enforcement agencies (Internal Revenue Service, U. S. Customs Service, U. S. Secret Service, and Bureau of Alcohol, Tobacco and Firearms) as well as from other Federal law enforcement and regulatory agencies. Presently, the non-Treasury agencies represented at FinCEN include the Drug Enforcement Administration, the Federal Bureau of Investigation, the U.S. Postal Inspection Service, and the Federal Reserve System. We have obtained commitments from several other agencies for assignment of personnel to FinCEN. As we expand our capabilities, we will add staffing commensurate with our needs to provide quality service to all participating agencies.

In your invitation, you asked that I address several specific issues. I will attempt to respond to each issue in this statement.

First I would like to provide a description of FinCEN's involvement in law enforcement efforts targeted toward money laundering, and of how the data bases available to FinCEN are used as part of FinCEN's operations.

FinCEN has operational, tactical, strategic, and research and development missions.

1. FinCEN maintains an Operations Center from which it provides immediate responses to queries from participating agencies for information in support of ongoing investigations. These queries include requests for information relating to the location of subjects, witnesses and assets, as well as a variety of other information.

2. The tactical support function of FinCEN provides for longer-term analysis of information relating to money laundering and other financial crimes. Information is disseminated, within legal and administrative constraints, to the requesting or other appropriate agency or agencies to aid in specific investigations of criminal activity.

3. Strategic intelligence products are also developed by FinCEN on trends in the methods and geographical patterns of money laundering. These products are to be used by law enforcement and regulatory managers who are participants in anti-money laundering efforts and who can make decisions on resource allocations, strategy modification and special projects based upon FinCEN's reports.

4. FinCEN's research and development function is involved in studies and strategies relating to long-term issues that affect law enforcement as well as the regulatory and private sector fight against money laundering. FinCEN has provided, and will continue to provide, a forum in which representatives of law enforcement, legislators, regulatory officials, and representatives from the private sector can meet and discuss issues that impact upon areas of financial law enforcement. The first effort of this type by FinCEN was the July 1990 Casas de Cambio conference. This conference brought together Federal and state prosecutors, investigators and bank regulators from Texas, California, Arizona, and New York for an in-depth study of the causes and potential solutions to the problem of illicit money laundering by Casa de Cambio type currency exchange houses along the Southwest border.

FinCEN now has access to a number of data bases. The Treasury Enforcement Communications System (TECS) includes access to the National Crime Information Center (NCIC), the National Law Enforcement Telecommunications System (NLETS), and the Treasury Financial Data Base. The Financial Data Base contains the Currency Transaction Reports (CTRs), Report of International Transportation of Currency or Monetary Instruments (CMIRs), Casino CTRs, Report of Cash Payments Over $10,000 Received in a Trade or Business, Form 8300, and the Report of Foreign Bank and Financial Accounts (FBAs).

We are in the process of negotiating data sharing agreements with a number of Federal law enforcement agencies. These agreements also include the necessary authority for FinCEN to disseminate the information in FinCEN work products. In addition to the sharing of investigatory data, we are pursuing other records from Federal agencies that will assist in the accomplishment of the mission of FinCEN. We are already working on specific matters with state and local law enforcement, and in some cases, with non-United States enforcement agencies. In time, and when we are able, we plan to increase our cooperation through negotiations with state and local agencies and with the international community to share data that will be of value in the war on money laundering and other financial crimes.

Some examples of how data is used in FinCEN's operations are:

1. FinCEN has developed information on an international money laundering operation, involving hundreds of millions of dollars. Our information bridged the gap among four separate but parallel investigations that were being conducted by Federal law enforcement agencies and a foreign agency. Representatives of these agencies were called in and briefed. A national and international strategy has now been developed to attack and combat this large scale drug money laundering operation. FinCEN is continuing to support the ongoing investigation of this criminal enterprise.

2. In another instance, FinCEN conducted an analysis of six similar businesses in a large city in the southwest United States. An examination of the data bases revealed that five out of the six businesses were filing significantly fewer Forms 8300 than would account for the volume of CTR's filed on their behalf. At a minimum, this indicated a lack of compliance with Form 8300 filing requirements. Additional queries in law enforcement data bases revealed that one of the business owners has been identified by two law enforcement agencies as a possible narcotics trafficker, who could be using private aircraft to transport contraband.

3. Another example relates to a request from Department of Treasury, Office of Financial Enforcement, to analyze the overall financial activity of 83 companies which had been identified by the IRS as being money transmitters. This analysis showed a lack of CTR filings by the money transmitters on behalf of their customers, which could be indicative of involvement in money laundering activities.

4. FinCEN's Operations Center has located numerous key witnesses, provided background and identifying information relative to subjects of investigation, located subjects of arrest warrants, and provided valuable information on individuals associated with money laundering and other criminal activity.

5. FinCEN concentrates considerable effort on strategic analysis of domestic and international currency movements. Disposing of the bulk cash acquired as the result of criminal activity (the placement stage of laundering) is a major vulnerability of criminals. Based on Bank Secrecy Act data and Federal Reserve data, FinCEN has a proactive program that identifies unusual cash activity in banking institutions. Our strategic analytical products have been of assistance to investigative and regulatory agencies.

6. A recent FinCEN strategic report on Forms 8300 illuminated general trends on currency purchases by foreign nationals. The report identified nationals from 11 nations with particularly heavy currency transactions with businesses in the U.S.

7. FinCEN has an artificial intelligence targeting system to provide leads to agencies on potential money laundering cases and organizations. This current system was developed by the Financial Intelligence Branch, U. S. Customs Service, which has been absorbed into FinCEN. We are in the process of enhancing the rule based system and including the capability of analyzing Forms 8300 in addition to CTRs and CMIRs.

Next I will discuss how and which law enforcement agencies interact with FinCEN.

We are already providing support to Federal law enforcement agencies that seek our assistance. This support is provided in response to telephonic or written requests for information as well as tactical, strategic and research products generated on our own initiative. FinCEN supports these agencies by providing information on current investigations, targeting new situations or organizations for investigation and producing reports on emerging patterns and trends.

FinCEN is, or soon will be, providing support to several task forces, including Operation Greenback in Florida. We will soon be supporting Organized Crime Drug Enforcement Task Forces (OCDETFs), which include Federal, state and local agencies.

FinCEN's current procedures or future plans to enhance Federal and state law enforcement efforts directed toward money laundering.

As indicated above, FinCEN can be the focal point for providing intelligence and analytical support to Federal, state and local law enforcement efforts directed at identification, investigation and prosecution of money laundering and other financial crimes.

Early in fiscal year 1991, FinCEN expects to take delivery of the computer hardware and software necessary to establish the Local Area Network (LAN) which will house the FinCEN data base. The FinCEN data base will capture, in one location, information not available elsewhere in law enforcement. Since the FinCEN data base is a new system of records, we have published a notice in the Federal Register of the existence of the data base in compliance with the Privacy Act.

Some examples of the types of information to be included are as follows:

1. All queries to FinCEN from, and responses by FinCEN to agencies for information relating to their investigations.

2. Intelligence products developed and disseminated through proactive efforts of FinCEN.

3. Tactical and strategic information provided to FinCEN by participating agencies that is not contained in other data bases.

In addition, FinCEN recently proposed to develop and maintain a consolidated data base for the criminal referral forms filed by financial institutions with their respective regulatory agencies. This would provide for a central location of all such referrals and capture the information in a standard format; thus, facilitating quicker and more accurate analysis.

Programs at FinCEN which use the information obtained through IRS from the Form 8300s.

FinCEN has found that Form 8300 information and Bank Secrecy Act information present closely related elements of the same picture. Both sorts of information are necessary to present a full analysis of complex money laundering schemes and to provide support to ongoing investigations, prosecutions and forfeiture actions. One of the primary consequences of section 6103(i)(8) of the Internal Revenue Code is to permit Form 8300 reports to be combined with information filed under the Bank Secrecy Act into a data base to be used for analytical purposes by FinCEN.

. The former Financial Intelligence Branch (FIB) of the United States Customs Service, gained access to Form 8300 information from the Internal Revenue Service in August 1989; by that time FIB was in the process of being absorbed into FinCEN. Since August 1989 FIB, and subsequently FinCEN, have made use of Form 8300 information in connection with a number of projects, including those described below. Access to Form 8300 information has made it possible for agents and analysts at FinCEN to target more effectively their inquiries, and to eliminate unprofitable possibilities, because of their ability to check the Form 8300 data base.

FinCEN uses, or wishes to use, Form 8300 data in four sets of activities:

1. analysis of potential targets for investigation;

2. analysis of patterns of currency movement;

3. support for ongoing investigations;

4. support for seizures and other process.

Following are several examples of uses of Form 8300 data:

1. An analysis of Form 8300 information was used to identify cash transactions with U.S. businesses by foreign nationals.

2. Form 8300 information was provided to agents involved in an ongoing investigation. The information identified cash business transactions for a specified zip code area in connection with that investigation.

3. An intelligence report was prepared in support of a multi-Treasury agency money laundering investigation (similar to Operation Polar Cap), which dealt with a national scheme in which false Forms 8300 were filed to disguise the source of cash sought to be laundered.

4. A study provided significant evidence that six businesses of the same sort in a southwestern United States city were failing to file Forms 8300 for covered transactions. A further study indicated that principals or associates of the businesses in question may have been involved in prior narcotics smuggling activity.

FinCEN expects the utility of Form 8300 information to expand. Form 8300 filings can reveal currency movements of the proceeds of illicit activity and can even be used (in the case of paper transactions) to give the appearance of a legitimate source for cash. Examination of Form 8300 data also can identify large purchases of luxury goods and services for the purpose of "placing" profits from illegal activities into legitimate consumption or investment goods. Although to date the majority of the uses to which FinCEN has put Form 8300 information involve narcotics-related money laundering, FinCEN believes that the data found on Form 8300 could also be used effectively in the analysis of other criminal activity, including embezzlement, fraud, bribery, and income and excise tax evasion.

FinCEN uses an artificial intelligence (AI) system to analyze the mass of Bank Secrecy Act data to indicate suspicious patterns of activity. We are in the process of re-engineering this system to enhance its processing capabilities and to improve its performance. The next phase of the enhancement process is to include Form 8300 data in the AI system. Inclusion of this data will require establishing appropriate rules for analyzing indicia of potentially suspicious activity from within the mass of Form 8300 data and putting those rules into the AI system with linkages to the rules for identifying suspicious transactions from the CTR and CMIR data bases. The enhanced AI system will permit more sophisticated analysis of both Bank Secrecy Act data and Form 8300 data.

Legislative or administrative recommendations to enhance law enforcement efforts to combat money laundering and increase public compliance with the applicable statutes.

We agree with the recommendation of Assistant Secretary Nunez that the life of the rules relating to Form 8300 information that are found in Section 6103(i)(8) of the Internal Revenue Code should be extended.

Mr. Chairman, I want to thank you for inviting me to testify on this important subject -- money laundering. I will be pleased to answer any questions that you or members of the committee have regarding my remarks or any other matter relating to FinCEN.

Chairman PICKLE. Thank you. Do you have a statement, Mrs. Gomez?

Ms. GOMEZ. No, sir, but I am available to answer any questions the committee might have.

Chairman PICKLE. Let me say, first, to you, Mr. Nunez, as a representative of the Treasury, we appreciate your testimony. We are going to study your testimony in detail about your recommendations.

I realize that this is a difficult area to administer in some respects. This committee today is looking at the violations or the lack of submission of form 8300s by the business community. We are not concentrating as much on the drug program.

They may or may not be related. You are trying to resolve some of the legal and administrative difficulties since you inaugurated the new FinCEN program with various agencies. You have had 2 years to do that. You gave me some recommendations today.

They are in a general nature. The fact of the matter is that you have had the law and very little has been done based on what I heard from your testimony.

I guess at this point I want to make some recommendations to you. First, before I make specific recommendations, do you think that businesses know that they are supposed to report cash transactions over $10,000?

Does business in general know that?

Mr. NUNEZ. I think in general, yes.

Chairman PICKLE. Throughout the country, then, it is your general feeling that most businesses, the majority of them, do know that they are supposed to report it?

Mr. NUNEZ. That was my feeling. I think the testimony of your staff supports that. Most of the people knew at least generally and some very specifically about the law.

Chairman PICKLE. In 1989, we only had 15 form 8300 reports filed by businesses in the District of Columbia. That is right here where you operate. Do you believe that we had only 15 cash transactions in the year 1989 over $10,000?

Mr. NUNEZ. I would doubt that.

Chairman PICKLE. Sir?

Mr. NUNEZ. I don't think so. I think we probably had many more than that.

Chairman PICKLE. Well, you have thousands more than that very likely. Here is 15,000. You know that is all that is submitted. The committee is asking you, why isn't something being done to see that the law is being enforced?

Mr. NUNEZ. I think the law enforcement community realizes we need to do a better job of enforcement. I think when IRS is here they can explain the difficulties they have been having doing this and the resources they have had available. It is primarily a resource issue, as I see it.

Chairman PICKLE. I don't think this committee is going to ask that all the resources of the Government should be focused on this business, making sure they are filling out this form. But when I have had a law on the books 6 years and it is not being enforced, it seems like the Treasury, IRS, and the Congress, too, are looking the other way and doing nothing.

It bothers me that we have no indication of any conviction. You have studied a lot of forms. You are looking at a lot of paper, but I question whether you are getting anything done on it.

Let me make some suggestions to you. First, we have heard that many businesses are not reporting to the IRS because transactions are structured in multiple cashier checks, money orders or cash. So I suggest to you that this committee may want to consider the need to include cashiers checks and money orders of less than $10,000 in the definition of cash and close the loop hole that allows these transactions to be unreported.

Do you want to comment? Let me take two or three other suggestions and then you can comment on them.

Second, we have heard that businesses are eager and willing to take cash without reporting the transactions. Clearly the penalty of 10 percent of the transaction is no deterrent to the nonreporting. So perhaps we ought to consider correcting the law to treat businesses just like banks where the penalty for intentional violation would be 100 percent of the transaction rather than 10 percent.

Third, we have heard that many businesses are willing to provide a quick course on how to circumvent the law. So, shouldn't we consider the need to clarify that it is illegal for any party, including the business itself to cause or attempt to cause a business not to file a report with the IRS?

Four, we have heard that a few businesses are complying with the reporting requirement. So, perhaps we need to legislatively mandate a study that would force the IRS to review its educational efforts to apply the program and the examination procedure directly to businesses.

I will do one more. As I said in my opening statement, if an individual is paying $20,000, $40,000 or $50,000 in cash, that individual who is attempting to make that purchase wants to use cash and not make any record of the transaction. That raises the assumption that that money is either hot or illegal money or that that money has never been reported.

A business could just set aside so much money and never report it and in some lump summing and spend it. That is tax evasion by that individual. That is just as serious as the failure of the business to fill out these forms.

I make these four proposals as a starting point for our committee to consider possibly at a later date. If you wish to make any comments about any of them, I want you to do that as we go along. But before you respond to those, I want to yield to members of the committee for questions that may want to ask at this time. First, Mr. McGrath.

Mr. McGRATH. Thank you, Mr. Chairman.

I wonder if you can compare for me the information collected by the CTR process and the information that is collected by the form 8300.

Ms. GOMEZ. The information that is currently required on the new form 8300 tracks and parallels identically the information that is required on a CTR form. That is why the drafting subcommittee that was formed to review 8300s relied so heavily on the experience that we had accumulated with the CTR.

It requires information on part 1 on the person who has physically conducted the transaction or conducted the purchase, identification of the person who is physically there. In part 2, it requires information if the person is acting on behalf of somebody else—to eliminate the possibility of nominees or "Smurfs" conducting the transactions and shielding the true identify of the person we are interested in, that is the boss.

In three, it has the description of the transaction. In the CTR, it describes when it is a savings account, checking account, a CD, a deposit or withdrawal. It has a description of the property—if it is real estate, service provided, when it is intangible property. It has a line for a narrative description—that is an address if it is a house, a make and model serial number, if it is a car. It includes a purchase price and then in the 8300 it is a little bit different than the CTR, because of the aggregation requirement.

It has a provision for explaining how the payments are made, whether it is an installment payment, whether it is all done on one day at one time or when it is over a year's period of time which is the aggregation period for 8300. This is unlike the CTR which is an aggregation for a 24-hour or business day period.

Part 4 is the information about the institution where the transaction occurred or the trade or business where the transaction occurred. The 8300, the current version, is very, very similar, I would say, almost identical to the CTR. It was based on the experience that we had in that area that we developed this form.

Mr. McGRATH. Is any of this information on the process or the collection of the information covered by the privacy restrictions of 6103?

Mr. NUNEZ. All of it is covered. That is one of the issues with the 8300. All of the information is covered by the privacy restrictions. Therefore, it cannot be disseminated, for example, to State, local or foreign governments.

It can only be used for criminal prosecutions. Because of the 1988 fix, which allowed other Federal agencies to use it—we are now beginning to enjoy its benefits—Customs, for the first time, is able to use the information I gave you that indicated since January of 1990, there have been 20,000 inquiries about the form 8300 by Customs.

Also, the Bureau of Alcohol, Tobacco and Firearms has made 175 requests for that information. It is limited to Federal law enforcement for use in criminal investigations and prosecutions.

Mr. McGRATH. Just this past month Treasury issued regulations requiring banks to keep logs on bank checks as low as $3,000. Can we expect as a result of this a lowering of the threshold from $10,000 to $3,000 for the reporting of cash on either the currency transactions report or the form 8300?

Mr. NUNEZ. We had not considered that directly. It is a good point that some of the transactions that have been described earlier today would in fact be now on record at a bank if, for instance, one of these drug dealers was sent to a bank and bought a cashier's check, there would now be a log under this regulation.

It is not the same as CTR but at least there could be a log.

Mr. McGRATH. These logs are not automated at this particular time and they are not made available to you.

Mr. **Nunez**. It is kept by the bank, available to law enforcement, but it is not sent in in any routine fashion. We would have to go in and examine the logs to acquire that information.

Mr. **McGrath**. Has Treasury or anybody done any analysis of what the magnitude of the avoidance of excise or sales tax might have been as a result of these cash transactions?

Mr. **Nunez**. I am not aware of any such study.

Mr. **McGrath**. It would seem to me besides the obvious money laundering objective is quite a bit of tax avoidance at the local and perhaps even the Federal level in terms of excise tax.

I think perhaps it is something that we perhaps should look at. As the chairman pointed out, if the fine for not reporting is merely 10 percent of the transaction in these kinds of transactions, then I think perhaps the fine should be increased substantially.

I thank the Chairman and I thank the panel for their testimony.

Mr. **Anthony**. Mr. Nunez, I have a series of questions I would like to ask about the Bank Secrecy Act. Before I do that, I wonder, what is your immediate reaction to the testimony that was given by our two investigators?

Mr. **Nunez**. I think it gave some specificity to what we suspected. I don't think anyone was surprised. I guess the numbers were worse than what we suspected, based on the figures we have available. It obviously will have not been the same number of 8300s being filed that you would suspect if you made some kind of comparison of with CTRs.

Mr. **Anthony**. It tells you we have a lot of work to do.

Mr. **Nunez**. That is absolutely correct.

Mr. **Anthony**. And also we are fighting a bad attitude out there.

Mr. **Nunez**. I think that is clear. I agree.

Mr. **Anthony**. If we have a bad attitude among the complying public, yet at the same time our opinion polls show that the laundering of drug money is one of the top priorities in the opinions of the American public, I want to be sure we are doing everything we can legislatively and regulatorily to correct the situation.

That is why we are holding the hearing, to see if we need to pass additional laws and make recommendations to the Congress to give you the tools that you need.

I would like to go back and review the record and see if maybe we can find out what is happening inside your own operation. Maybe these questions should be more directed toward Ms. Gomez. She is the person charged with it, but you are her boss and maybe the two of you can compliment each other and answer the questions.

In March of 1990, the subcommittee investigators investigated the Office of Financial Enforcement to review the backlog of civil penalty cases involving the Bank Secrecy Act.

Treasury agencies like the IRS investigates violations by banks and refer cases to Treasury for penalty assessments. It was learned that the OFE had a backlog of over 200 civil penalty cases which resulted not only from a lack of staffing, but also from a low agency priority and inadequate internal controls for the processing of these cases.

Those are editorial comments in my question which you can address any way you want to. The subcommittee found OFE had not touched cases for several months and others were closed out penalties because the statute of limitations lapsed despite money laundering was said to be a top priority at Treasury.

There was only one person assigned to handle these cases. Is that you, Ms. Gomez?

Ms. GOMEZ. I am flattered, but that is not accurate. I was one of several people who worked on it part time. We had the assistance of the General Counsel's Office who handled earlier cases.

Mr. ANTHONY. So there was not even a full-time staff person, but only a multitude of part-time staff people given full-time responsibility?

Ms. GOMEZ. In November of 1988, we hired a full-time Chief of Compliance, Ms. Stanton, whose responsibility it was to handle the civil penalties. Again, because of all the other activities occurring in the office, revising the regulations, dealing with exemption issues and the other functions the Office has, I would say her time was maybe 60 percent on civil penalties cases.

Mr. ANTHONY. So you had one person 60 percent and a few other people who sometimes did a little work on it.

Ms. GOMEZ. Yes, sir.

Mr. ANTHONY. I understand staff made you aware that these questions were likely to surface today so we would not catch you off guard. Do you have a summary of what happened in those 200 cases? Can you tell me how many lapsed because the statute of limitations ran out, or because that 60 percent did not get to them, that one staff person working 60 percent of the time did not get to them or the multitude of part-timers did not get to them.

Ms. GOMEZ. I cannot tell you what happened because of the statute problems. I can tell you what happened to the 200 cases.

Mr. ANTHONY. Would it be fair to reflect for the record that many cases were closed because of failure to act within the statute of limitations.

Ms. GOMEZ. I think it would be fair to say that some were. I would not say many or a majority. I think it would be fair to say that a few were; yes, that is correct.

Mr. ANTHONY. Some being identified as 3 or 80?

Ms. GOMEZ. Certainly less than 80 because our backlog was only 200. I cannot give you an exact number.

Mr. ANTHONY. Do you have it cataloged in your record-keeping as to how many were lapsed because of a statute of limitations? Can you specifically tell me the answer by going back to your records?

Ms. GOMEZ. We would have to go back to every case that was closed to get that information. When we closed the case we don't identify the reason for it although that is all documented in the case.

Mr. ANTHONY. If you can do that easily without creating a great deal of dislocation of current staff, I think it would be nice to have. But at least the record is clear that at least some, and the definition being unclear as to what the numerical number "some" is. Why don't you just go ahead and tell me what the disposition of those 200 cases was.

Mr. NUNEZ. There are currently 154 referrals awaiting determination, approximately 54 are under investigation by IRS criminal investigations or they are the IRS CID for a determination of when they should be pursued criminally.

I think you know, Mr. Anthony, that in some of these cases we wait until IRS determines whether they want to make a criminal case before we proceed with a civil case and get in their way.

Twenty-four cases were pursued for civil penalties. Twenty-two are in the process of being closed without penalties. Thirty-one require additional information from the financial institution or the regulatory agency before financial disposition and 23 are being developed to determine whether they should be pursued.

There are also four cases awaiting a decision from the General Counsel with regard to the Halper decision.

Mr. ANTHONY. How many of the cases resulted in penalties being assessed against the banks?

Ms. GOMEZ. We have one case where a penalty has in fact been assessed. Twenty-four cases have had prepenalty letters sent out to the institutions or their attorneys informing them that we are beginning the penalty process.

One penalty has been negotiated and we are in the process of signing the settlement agreement. Twenty-six cases have either been concluded or are in the process of being concluded with penalties.

Mr. ANTHONY. Are you at liberty of discussing what the negotiated process of penalty is at this time?

Ms. GOMEZ. The one penalty that has been addressed was against the National Bank of Washington. It was in the amount of $268,000.

Mr. ANTHONY. Was it paid before they were taken over by FDIC?

Ms. GOMEZ. No, it was not.

Mr. ANTHONY. So to date, you have collected no moneys through penalties.

Ms. GOMEZ. That is correct.

Mr. ANTHONY. I could go on a lot longer, but I think the point is being well made at the moment that there was a big backlog and it appeared nothing was being done about the backlog until our staff went down there and found the boxes which were stuck in a corner and gathering dust.

It appears nobody was assigned. It appears to be a staffing problem. Do you think it is a staffing problem?

Ms. GOMEZ. Absolutely.

Mr. ANTHONY. Mr. Nunez, do you agree it was a staffing problem?

Mr. NUNEZ. Yes.

Mr. ANTHONY. You also agree it was a priority problem. In other words, you had so many other problems due to lack of staff and this became a low priority problem?

Mr. NUNEZ. Within the Office of Financial Enforcement they had a number of high priorities and this one was not at the top.

Mr. ANTHONY. The point I am trying to make by these questions, Mr. Chairman, is that if we are to expect the average business person to say no to a cash transaction, as only three did, and certainly not to have 25 percent of those under investigation overtly try to help the purchaser get around the law, then we certainly don't want to let that business person read in the paper where once the forms have been filed, that we are not doing a proper job in utilizing the data, and creating the cynicism that would breed on itself.

I will not go any further than to say that the follow-up by the staff on that shows that you have changed your priority and you have increased staff. I was particularly pleased to hear Mrs. Altenstadter's report. It seems like at least you are beginning to get some handle on it. Is my point clearly made or well-taken that if we are not doing the proper job enforcing and utilizing the material at the top, then it will eventually factor down and create the lack of respect at the bottom.

Mr. NUNEZ. That is exactly right. To the credit of the people in OFE, they recognize this more clearly than anybody else. The good news is that for a variety of reasons in the last 6 or 8 months, we have cleaned up the problem.

We have people in to handle emergency matters to get us current. The Senate Appropriations Committee has appropriated funding for additional positions, some of which are earmarked for OFE. I am confident that, if this comes to pass, we won't have to have this conversation in the future.

Mr. ANTHONY. Well, I would hope not. I virtually don't want you to take any earlier comments that I made to be 100 percent negative, only partly negative.

But my spirit is one of cooperation with you to try to ascertain what additional tools, staff or moneys you need and what additional legislative authority you might need. I knew we had a bad problem.

I guess I have been out of the criminal justice system long enough that I only read about it occasionally in the paper. I used to be there on a day-to-day basis and I knew how bad it was. I guess I have been lulled to sleep, but I will tell you, this report is like a sharp needle in my side.

We are going to have to do more in terms of outreach to the business community to let them know how bad the problem really is to encourage voluntary compliance. If we don't get voluntary compliance, we will have to make sure the law is on our side and the staffing and the computer systems are there that we can bring down the heavy hand of fair enforcement of law or otherwise.

This is a problem that will continue to run away from us. I would just like to close, Mr. Chairman, I guess I agree with what Mr. Rangel said, this has been one of the best hearings that I have had the privilege of attending. I think it is important that we really work with the institutions and see if we cannot find the proper response.

I congratulate you for moving forward.

Chairman PICKLE. I thank you, Mr. Anthony. The subcommittee does plan to have a follow-through hearing on this possibly with specific recommendations for changes in the legislation.

Mr. Shaw, you are recognized.

Mr. SHAW. Thank you, Mr. Chairman.

Our staff has advised us that only about 96,000 of these forms have been filed since these laws have been on the books. That is over 6 years. Also we have learned and you have heard from this investigation that some 96 percent of the businesses that our investigators dropped in on, were either going to circumvent the law or totally ignore the law.

We have also found that really no one has been aggressively penalized with regard to violation of this law. We have also learned there are some loop holes that we should close. I would like to ask this question. How is this data doing us any good?

Mrs. Altenstadter, in your testimony, you indicated that the form 8300 was helpful in the analysis of potential targets of investigation; analysis of patterns of currency movement, and support of ongoing investigations and support for seizures and other process.

Can you be more specific? How can anybody carrying drug money go through this reporting process and allow their name to be used when the majority of the merchants out there are willing to cooperate with them to see that their name never gets on a form 8300. So what good is the data that you are getting from the 8300s if anybody can get around it?

I think our staff are extraordinary, but I don't think they are so sneaky that they can do it better than the drug dealers can.

Ms. **Altenstadter**. One way to detect the use of false information on 8300s is to compare the data with the other financial data forms, CTR and CMIRs in an attempt to find linkages. In other words, if somebody uses aliases, say they were trying to avoid the 8300 reporting but they may use the same address. We may be able to identify the correct identity through research of that address. We also may then be able to connect them through matching the 8300s with CTR and CMIRs.

Mr. **Shaw**. They are not using the right address, are they?

Ms. **Altenstadter**. Another way of detecting use of false information on 8300s being filed will be through the numerous data bases that are proposed to be accessed by FinCEN. Often we will be able to determine a true identify through the use of law enforcement data bases. If the person has a prior record, we may be able to also determine the true identity.

Mr. **Shaw**. Then what do you prosecute them for?

Ms. **Altenstadter**. There are numerous criminal provisions of Internal Revenue Code that could be used to prosecute individuals who use false identifies to frustrate the requirement to file form 8300. The money laundering statute may also be an effective prosecution vehicle.

Mr. **Shaw**. Then you are telling us that there have been people that have been prosecuted as a result of the information that you have gained from the use of the 8300, for other reasons not for the——

Ms. **Altenstadter**. I don't have any stats on that, but I believe there have been instances where 8300 information has been useful in ongoing investigations to provide additional leads.

Mr. **Nunez**. If I could add to that, I don't think there is any doubt that the 8300 information that we do have is being used as leads to prosecutions under a variety of different sections. It does not lead to prosecution of noncompliance because by definition that kind of a violation does not show up separately in IRS records. But the forms that are filed are extremely useful to the prosecution of a whole range of narcotics, financial crimes and money laundering offenses.

Mr. **Shaw**. How can we set up a program, some type of a reporting program other than a possible sting operation? How can we force merchants to see that they follow through with filing information reports as required by law?

Mr. **Nunez**. If I could borrow the analysis with the experience from the CTR requirements, during the early 1980s and prior to the prosecution of the Bank of Boston case, we probably had equally as bad compliance with the requirements in the financial institutions.

It just takes a couple of good prosecutions, a couple of good enforcement efforts to get the attention of the audience out there. I think it is absolutely incumbent on Federal law enforcement to make some good cases. I think that once we make some good cases for failure to file these forms or structuring or anything relating to the compliance aspects of this, you will see an immediate increase in compliance.

Mr. **Shaw**. Mr. Nunez, this law has been on the books now for 6 years. We have yet to find the first prosecution. Why aren't we doing that? If that is going to solve the situation, why don't we do it?

Mr. **Nunez**. First, in answer to the Chairman's question before, I did find some numbers. I think part of it is just a question that we don't capture information specifically on straightforward prosecutions of 8300 violations, and we probably should.

In any event, our latest findings show 47 active investigations involving form 8300. We know there have been several others initiated since them. Most have involved automobile dealers. I know that, on an anecdotal basis, there have been cases. But we don't have a good way to capture that information and present it to you statistically.

The Bank Secrecy Act passed in 1970, and I hope it doesn't take us this long, but it took until 1985 before we got good at enforcing that. Two wrongs don't make a right. We certainly should have been doing better over the last 6 years, but I think now we have the chance to do what we need to do to enforce the law and make some further legislative changes to make it work better.

I don't have any problem. If we have resources to do enforcement, the law will work.

Mr. **Shaw**. I can understand what you say with regard to making some good prosecutions, punish a few people and then you will get the attention of other people out there violating the law or at least a lot of them. Is there any way other than that threat of prosecution?

How are you going to catch them? That is what I want to know.

Mr. **Nunez**. Law enforcement catches them.

Mr. **Shaw**. If you don't report your income on your income tax returns, there are all kinds of reporting features where dividends are reported by the company declaring the dividend, any wages you received on W-2 forms, these things are all set up.

Is there any parallel that you can think of that we can do to see that these forms are properly filed and there is at least better than a 20 or 30 percent chance that those violating the law will be caught?

Mr. NUNEZ. Yes. I think IRS can give you the specifics more than I can. I know that in the course of auditing businesses, the 8300 compliance is part of the IRS audit process. When they go into retail and wholesale businesses in the course of normal tax audit, 8300 compliance is part of that.

Another way to do it is through using FinCEN's analytical ability. If we have good compliance on CTRs, which I think we now do, and you check backward, for instance, if you have a car dealer depositing a lot of cash in a bank account and a CTR being generated, that provides an opportunity for the service to go back and ask: Where did that car dealer get all this cash being deposited in this bank account?

One thing FinCEN is able to do, by analysis is to send out to the field targets or at least leads to follow up on—seeing businessman X and find out where all this cash is coming from that is being reported on the CTR forms.

Mr. SHAW. If we are doing all of that in all the hundreds of thousands of audits you do each year and if you are checking 8300 compliance, then why have we not had any prosecutions?

Mr. NUNEZ. I am saying these are the things we should be doing. IRS can tell you about their audit of the retail businesses and explain how that works.

Mr. SHAW. Let me be sure that the record is clear. Did you say the IRS is doing 8300 compliance as part of their regular audit or that they should be doing that.

Mr. NUNEZ. I think that they are doing that.

Mr. SHAW. I am sure they have caught some people. Why haven't there been any prosecutions on this?

Mr. NUNEZ. The only thing I can suggest is that you ask IRS what happens when they conduct these audits and what the results are.

Mr. SHAW. Maybe we are not talking to each other. But I think as between agency to agency or whatever, it would appear to me that if Congress thinks enough to put this thing in the law and if Congress appropriates the necessary funds in order to administer this, that just setting this up on computer and every once in a while something pops up showing an alias is using the same address with several names, we need some actual prosecutions and some enforcement showing it is becoming more difficult for drug dealers to get rid of their cash.

As far as I can see, this particular piece of legislation has really not done any good, that the businessmen all across the country are perfectly aware of ways to get around it legally or illegally. This is simply because we have not prosecuted cases.

As you, yourself, said, we are going to have to prosecute somebody to give people religion on this issue. The Treasury, IRS and everyone else involved in this thing has to show they mean business and are in compliance with the law set down by Congress.

Mr. NUNEZ. I agree.

Mr. SHAW. Thank you.

Chairman PICKLE. I thank you, Mr. Shaw.

I appreciate the testimony you have given. Congress has attempted to give you the law to see that these cash transactions are reported. It appears that you have not used that. Apparently, you are getting geared up now through the FinCEN program to do something about it.

We hope that is true. I have the feeling that you, IRS, Justice, are trying to get organized to go after the big drug dealer and have not paid any attention to the local merchant. One of the purposes of this hearing is to point out that the law applies to businesses the same as it does to banks or anybody else.

We have completely overlooked them. How else can you explain that only a handful of 8300s have been filed and nobody raises a question, nobody observes and everybody looks the other way? It is just acquiescence on the part of our authorities that we just think it is so big we don't know how to get into it. I think you must give more attention to that aspect of it.

Mr. Nunez, I will ask you briefly to comment on some changes we have been thinking about. One is with respect to the fact that we ought to include cashier checks or money orders under the definition of cash.

Obviously, they are using cashier checks over and over again as a multiseries. Should that be included in the definition?

Mr. NUNEZ. We would like to work with the committee on that. We see some problems on how we would do this. As a general proposition, if we don't do this right, we will end up capturing every single business transaction, every sale, every payment for services that takes place, unless we can figure out a way that will identify or define what kinds of transactions we really want to be reported.

I guess that our fear is that we don't want to get the wrong information. We don't want to have to sort through all legitimate transactions that take place every day where people buy cars and they are not drug dealers or they buy a house with a cashier's check. So we have to look at how we can weed out the ones we don't want and get the ones we want.

Chairman PICKLE. I understand that. Should we try to have a better approach to this definitional case particularly in the area of the cashier's case? You say you don't want to get hundreds of multiples of data you can't use. You are not using anything now. You need to make some improvement. I need you to work with the committee on how we structure that.

Should we increase the penalties from 10 percent up to 100 percent in the case of a bank? Should that be increased?

Mr. NUNEZ. Yes, we agree with that. We think it should be exactly the same as the CTR penalties.

Chairman PICKLE. Should we say that it is illegal for a business to take steps to obviate these 8300s? The problem of advising the potential purchaser of how to get around the law, if we can make it illegal for them to do that, should that be part of the consideration?

Mr. NUNEZ. Yes.

Chairman PICKLE. Should we or can we extend it further to say that the purchaser who obviously got this cash and has been saving it up and probably has never counted it as income, should they also be made a part of this formula?

Mr. NUNEZ. Yes.

Chairman PICKLE. Lastly, should the Congress mandate some kind of a study with education or public relations efforts to try to inform the public better that we need their cooperation in this approach? Can we do a better job, should that be required?

Mr. NUNEZ. I know that IRS has made an effort to educate people and your staff shows that the effort has worked to some degree, because some of the businesses knew what the law was. What they don't know is that something bad could happen if they violate it and that is enforcement's responsibility.

Chairman PICKLE. We are going to be submitting questions in writing and we want the responses from you. This committee is trying to find a better way to handle these type of transactions and we need the help of the Government. I don't want to get into a position that we make a position and IRS or Treasury pulls the rug out from under us. Sometimes they waffle.

I hope you can give us a reaction. We are not trying to be negative today, but obviously this is a pitiful state of performance that we are faced with and something has got to be done.

I simply want to thank you for your testimony and for your appearance today and we will be in touch with you and try to work together for further improvement on it.

Mr. NUNEZ. Thank you, Mr. Chairman.

We look forward to working with you and your staff.

Chairman PICKLE. Thank you.

[Followup questions to Mr. Nunez and his responses follow:]

DEPARTMENT OF THE TREASURY
WASHINGTON

ASSISTANT SECRETARY

October 22, 1990

The Honorable J. J. Pickle
Chairman
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Enclosed are responses to the questions submitted by you to Secretary Brady pertaining to the September 20, 1990, hearing on Money Laundering.

Please do not hesitate to contact me if I can be of further assistance.

Sincerely,

Bryce L. Harlow
Assistant Secretary
(Legislative Affairs)

Enclosure

Question #1

To what extent do individuals and businesses who engage in large cash transactions underreport income to the Internal Revenue Service?

Answer: Estimates of the extent of underreporting of income by taxpayers are available from the IRS's Taxpayer Compliance Measurement Program. However, data linking underreporting to individuals and businesses who engage in large cash transactions is not available.

Question #2

How much revenue is lost due to the underreporting of cash income?

Answer: Analyses of the tax gap based upon the Taxpayer Compliance Measurement Program would include revenue uncollected due to the underreporting of cash income in the legal economy. However, detailed estimates of such losses due to underreporting of cash income are not available. Estimates of revenue losses from this source resulting from illegal activities are also not available.

Note: Responses to #1 & #2 submitted by DO Tax Policy in consultation with IRS.

Question #3

Describe cases in detail which Ms. Altenstadter gave as examples in her FinCEN testimony, including how CTR and Form 8300 information is used to identify such situations.

Answer: Financial Crimes Enforcement Network (FinCEN) routinely analyzes the currency movements between Federal Reserve Banks and depository institutions. In a recent analysis, FinCEN identified unusual cash flow patterns with respect to a financial institution in a Southwest city. Further analysis reveals that much of the unusual cash flow was attributable to six businesses. This was determined due to the high volume of Currency Transaction Reports (CTRs) being filed by the financial institution on behalf of the six businesses. Further analysis of the Financial Data Base revealed that relatively few Form 8300s were filed for five of these businesses. Each of the businesses are involved in retail sales of consumer products for which apparently large sums of currency were used to purchase the items.

Both legitimate and illegal activity could explain the analysis conduced by FinCEN. As indicated in Ms. Altenstadter's testimony, FinCEN was able to determine from queries in criminal data bases that the reported owner of one of the businesses had been identified by two law enforcement agencies as a potential narcotics trafficker. Pending the resolution of 8300 dissemination issues, FinCEN will distribute this information to appropriate law enforcement agencies to conduct appropriate inquiries into what appears to be an illegal money laundering situation.

Due to the potential sensitivity involved and possible compromise of ongoing investigative activity, we are not including specifics as to the exact type and location of the financial institution and businesses. If the Congressman himself requires further information regarding this request, please contact Brian Bruh, Director, FinCEN. Members of the Congressman's staff may contact Bob Armentrout, Mr. Bruh's Executive Assistant, at (703) 235-0520.

Question #4

Provide a copy of the Treasury referral guidelines for Bank Secrecy Act civil penalty cases.

Answer:

Referral guidelines are at present in draft form. We will provide these guidelines when they become final.

Chairman **Pickle**. Now the Chair calls to the witness table our old friend Mr. Murphy, Senior Deputy Commissioner of the Internal Revenue Service, accompanied by Inar Morics and Marshall Washburn. Mr. Murphy is Deputy Commissioner and has been with us on many occasions, served as acting Commissioner, and is a splendid public servant.

You are accompanied by Inar Morics, Assistant Commissioner, Criminal Investigations, and Mr. Marshall Washburn, Deputy Assistant Commissioner of Examination.

Mr. Murphy, if you will proceed, sir.

STATEMENT OF MICHAEL J. MURPHY, SENIOR DEPUTY COMMISSIONER, INTERNAL REVENUE SERVICE, ACCOMPANIED BY INAR MORICS, ASSISTANT COMMISSIONER, CRIMINAL INVESTIGATION; AND MARSHALL V. WASHBURN, DEPUTY ASSISTANT COMMISSIONER, EXAMINATION

Mr. **Murphy**. Thank you, Mr. Chairman. It is good to be back to see you.

Since you have already introduced Mr. Morics and Mr. Washburn, I want to applaud you and Members of the subcommittee for holding this hearing, and I would like to compliment the members of the staff that have done such a great job. We have a good deal of interest in the investigative capabilities they have. We might need that in the IRS before it is over with.

Since there have been a number of others that have commented on specific provisions in the title here, I will try to summarize what I think are the most important parts of my testimony and submit the entire statement for the record.

Chairman **Pickle**. Without objection.

Mr. **Murphy**. Mr. Chairman, our emphasis today will be on reports required to be filed by the businesses under the Internal Revenue Code, section 6050I.

The IRS welcomes this hearing into our activities to combat money laundering. As you are aware, IRS devotes substantial resources to this effort. Both the CTR and the form 8300 provide important leads for these investigations.

There is inadequate compliance by those responsible under 6050I. Let me repeat that. There is inadequate compliance by those responsible under that section of the law for filing the form 8300.

We welcome your interest and attention to our efforts to educate the business community on its responsibilities in this vital area. The problems we face with form 8300 compliance are similar to the compliance problems we faced with regulated financial institutions regarding CTRs in the past. I believe Mr. Shaw and several others acknowledged that as did Mr. Nunez from Treasury.

To many people, money laundering is equated solely with the process of narcotics trafficking. However, to IRS it includes income from any illicit activity including white collar crime as well as unreported income from an otherwise legitimate activity.

It was brought up earlier that our Detroit Computing Center is the repository for the currency transaction reports as well as the 8300 forms and others. In that data base is information from the

8300s which report the receipt of more than $10,000 by a person engaged in a trade or business.

This section, as you pointed out, was added in 1984 and what is more, the data base can be queried by IRS employees. There are over 7,000 IRS employees with online access to the data base in Detroit.

While much of the publicity and this testimony revolve around the use of this data for IRS Criminal Investigation purposes, it is used by all IRS functions with increasing frequency.

For example, during August of 1990, that is for 1 month, Examination personnel queried the data base 23,000 times. Criminal Investigation personnel queried that data base 16,000 times and Collection personnel 4,000 times. Examination personnel used the data when developing Title 31 and form 8300 compliance project, in the development of potential fraud cases, and they do this when conducting package audits and in situations where the examiner is seeking leads on additional income or assets. It is also used by Collection personnel seeking asset or income sources from which to collect delinquent accounts.

I believe Mr. Shaw pointed out that compliance with the CTR reporting requirements by financial institutions was inadequate for many years, despite various educational and compliance efforts by both IRS and Treasury.

In 1985, the Bank of Boston pled guilty to Bank Secrecy Act violations. This was followed by the assertion of a number of large civil penalties by the Treasury.

Since then, compliance by banks has improved dramatically. CTR filings increased from fewer than 70,000 per month to the present level of over 500,000 per month.

We are now faced with a similar problem in compliance with the section 6050I reporting requirements. Despite a variety of educational and compliance efforts, only a few thousand are filed each month. I thought you gave some pretty good examples of noncompliance this morning.

The ways in which funds can be laundered are limited only by the imagination. Money laundering may include the movement of cash domestically or internationally through financial institutions or conversion of cash into assets. In the past, it was fairly easy for a money launderer to locate a bank that would agree not to file a CTR. I believe this is no longer the case.

Compliance by the banking community is quite good. Current CTR reporting problems generally involve the unregulated financial institutions such as currency exchanges. As you know, the House Banking Committee has been exploring possible solutions in this area.

The Assistant Commissioner (Criminal Investigation), Mr. Morics has responsibility for Criminal Investigation activities across the country, while the Assistant Commissioner (Examination) has responsibility for all Examination activities. At this point, we would like to describe the efforts of these offices in combatting money laundering.

Chairman PICKLE. Mr. Murphy, the Government really wasn't doing much about taking action on these CTR transactions. We were just looking at it afar or kind of thumbing our nose about it until the Bank of Boston case.

Mr. MURPHY. That is correct.

Chairman PICKLE. We brought suit and people went to jail. That got the banks and the savings and loan attention.

Now, maybe we need to choose to prosecute one or two or three cases under these 6050I violations or for failure to file an 8300, and if we find people who are guilty, let's send them to jail or take appropriate action.

We haven't done that, neither you nor the Justice Department nor the Treasury, that we know of. If there are cases, we would stand corrected. But the fact is, we haven't done it.

Now, I believe if we had a case prosecuted and we had a few convictions to show that we are serious about it, that would stop a lot of this violation or lack of compliance. I think that is what it takes.

As it is now, we are so willing to accept the fact that it is almost like Diogenes would take his lamp and going through the land looking for an honest person. When we only get 3 out of 79 that would say no, I want to make the records, obviously there is something terribly wrong.

So, I suggest that you work with Justice, in cooperation with Treasury, to do something about these violations. When you do that, all these other laws can fit in.

Mr. MURPHY. I agree. When I give you some examples, I think you will have even more reason to think that way. But I think the idea of making sure we are doing a better job of educating the businesses on what is expected of them, in spite of some of the findings that we have here, is also necessary.

I started to say earlier that maybe what is needed are more Bank of Boston cases.

I am at the center of page 6 talking about Examination's mission, which is to identify returns most in need of examination and to conduct quality examinations. In order to accomplish this, we must allocate our limited resources across a variety of tax returns, such as income, estate, gift, employment and excise.

In addition, we have established tax abuse and other special programs. One of the latter is our currency and banking reports program which includes two activities. Both activities are intended to promote compliance with the reporting and recordkeeping requirements regarding cash transactions.

The first activity reflects the IRS' responsibility for ensuring title 31 civil compliance, the filing of CTRs, by financial institutions not examined by any other Federal agency for safety or soundness. Examples of these nonbank financial institutions include: check cashing services; currency exchange operations; issuers, redeemers or cashiers of travelers checks, money orders, or similar instruments; and licensed gambling casinos with gross revenue exceeding $1 million.

The types of businesses providing such services are extremely varied. For example, it is possible to purchase money orders or arrange for the wire transfer of funds through customer service departments of many grocery stores, truck stops, convenience stores, and travel agencies. This diversity creates a major task just to identify the entities who should be filing CTRs.

Examination conducts specific Title 31 compliance checks on these institutions separately from our tax examinations under Title 26. The resources committed to performing these compliance checks has been increased by 100 percent over the past 4 years. In fiscal year 1991, we have planned for an increase of 38 percent, which will mean the commitment of 81 staff years to this activity.

The second activity included in our currency and banking reports program is the administration of the information reporting provisions of section 6050I. Compliance with the requirement to file forms 8300 is checked during our package audit process. Mr. Nunez commented on that.

The package audit concept is a required examination procedure which calls for revenue agents to ensure that all tax returns and documents have been filed by the taxpayer under such an examination. This is an incremental addition to the time expended in the examination of entities selected for package audits so those results are not separately reported.

While an effective method of allocating our limited resources, this approach, Mr. Chairman, has the disadvantage of not providing specific statistics on resources applied or results obtained.

I am just going to give you a quick commercial that this is yet another area where we need help in the whole modernization of the tax system. I know you and your subcommittee have been personally supportive on that.

Another method for checking on section 6050I compliance is through local compliance initiatives. Currently, there are 20 form 8300 compliance projects being tracked by our seven regional commissioners. The New York and Boston districts have each established an Examination group focused on money laundering and white collar crime.

In addition, three national projects have been developed to assist in the identification of businesses most in need of compliance checks. The first project addressed attorneys who filed incomplete forms 8300, asserting that a completed form would mean a violation of the attorney/client privilege. The missing information is being sought through service of administrative summonses. Some attorneys have complied while others have not.

A New York summons enforcement case was decided in the Government's favor at the district court level and is now on appeal. An additional 21 cases proposing summons enforcement litigation have been referred to the Justice Department. The other two national projects involve the identification of nonfilers.

Chairman Pickle. Earlier, Mr. Schulze had suggested that a form 8300 was too onerous and too detailed and burdensome. I had a somewhat different view in that I felt it was a one-page 8300 form and it was not that complicated. But Mr. Schulze is right that billions of people are asked to fill out form after form after form to the point where any kind of form is a burden and is a source of some anger.

The question is, in your opinion, is the form 8300 a proper form now? Does it need correcting? Can you make it simpler or should we attempt to make it more simple?

Mr. Murphy. Mr. Chairman, before coming here this morning and taking a closer look at the form and comparing it to the CTR form, I certainly felt that the information on it was the kind of information that we needed. I heard the testimony this morning, including Mr. Schulze's, and I must tell you that any form that we ask the business community to fill out is one that should only contain the information that is absolutely needed by the Service and interested parties so that we limit the burden on the taxpayers.

I feel as though the appropriate information is there, Mr. Chairman, but I am certainly willing to take another look at that to be absolutely sure that we are not requiring information that just is of no use to us.

Chairman PICKLE. I looked at the form and can see why, small lines, and it may be difficult for an untrained person to do it. I don't think it would be a big problem if you had before you a transaction worth $100,000 or $200,000. I would take my 5 to 20 minutes and that would be a bother to me if I wanted to get around the law.

I would like a recommendation how we could open it up so the businessman could fill it out easily and quickly, and get the essential information. I think we can work towards more simplification.

Look at that and give me a specific report.

Mr. MURPHY. Maybe we can get the working group mentioned by our friends at Treasury to look at that.

Mr. SHAW. Any form from the IRS is intimidating to a certain degree, but I agree the form says who paid how much for what and I don't know how you can boil it down any further.

It looks like an IRS form. They all look the same. They do have a certain amount of intimidation about them, but I cannot conceive of a way that you can make it any more simple.

Chairman PICKLE. I think Mr. Schulze, as a former businessman, has an aversion against all forms.

Mr. SHAW. I was surprised that one of the witnesses or someone said that it took 20 minutes to fill it out. Maybe the first one, but after that I don't see where it would take 20 minutes.

Mr. MURPHY. We learned our lesson in saying what education level is capable of filling out income returns. We have to remember the form is really designated to facilitate that criminal prosecution. We will pay very, very careful attention that it doesn't minimize our chances of developing a case and recommending it for prosecution as well. OK?

Let me switch to the Criminal Investigation side. In addition to the Internal Revenue laws, Criminal Investigation is responsible for investigating all allegations of criminal violations of the Bank Secrecy Act except violations related to international transportation of currency and monetary instruments.

Since 1986, IRS Criminal Investigation has initiated more than 4,200 criminal cases on money launderers. Over 1,100 of these were initiated in 1990. These cases represent 27 percent of our criminal case inventory and involve about 20 percent of our Criminal Investigation resources.

Approximately 50 cases have been initiated for violations of the section 6050I reporting requirements. Nearly all of these have been since the increased penalties were enacted, from 1 year to 5 years.

Seizures under the money laundering statutes have totaled some $135 million. Almost half of this has been seized during this fiscal year. The rate of increase is at least partly attributable to the increased training and experience of our personnel—I might add, who do a very difficult job quite well.

I am not in this testimony trying to skirt away from the fact that we have a great deal of success on the CTR side. We have had a lot of activity there and more is needed in the 8300 area.

So over the years, Criminal Investigation has been extensively concerned with CTR compliance by regulated financial institutions. Criminal Investigation personnel have developed and conducted training sessions for bank tellers and officials. Video tape presentations on money laundering and the CTR form filing requirements have been prepared and distributed to the banking community.

If you are interested, Mr. Chairman, we would certainly make copies of those video tapes available to you and members of the subcommittee and to the staff.

Recently we have devoted a substantial amount of time to educate and to obtain the cooperation of bank personnel in identifying and reporting suspicious transactions. I don't think it is necessary to give you an example on it, but I can tell you that if a bank employee observes a suspicious transaction, they are encouraged to file a suspicious transaction report. This can be indicated by checking a block on the CTR form. Statistics on such reports are maintained by our Detroit Computing Center.

Suspicious transactions may also be reported by a letter or phone call to the local Criminal Investigation office. Western region has established a pilot program to track reports of suspicious transactions from all sources. These reports have increased from approximately 3,000 in 1986 to over 7,000 so far in 1990.

Converting illegal proceeds into autos, jewels, gold and silver coins, artifacts, and real estate is another trend among those involved in narcotics trafficking. The assets indicate economic stature and prestige to their peers as well as a method of laundering their profits. As an example, two luxury car dealerships have been seized by Criminal Investigation in the past several months for violations of the money laundering statutes and section 6050I.

One dealership in Maryland was the subject of an undercover operation in 1989. The investigation began when the dealer offered to sell a Mercedes Benz to an undercover police officer and not file a form 8300. Sounds kind of familiar, doesn't it? During the operation, the dealer had been told that the cash came from narcotics sales.

The investigation showed that over a 4-month period in 1989, the dealership had structured in excess of $400,000 into its business bank account with no forms 8300 being filed. The proprietors were indicted for money laundering and 64 luxury vehicles were seized.

A Los Angeles auto dealership was the subject of an IRS investigation. The owners catered to the exotic tastes and large cash business of the Blood and Crip gangs in Los Angeles. Vehicles were sold for cash with no forms 8300 being filed or filed with false information.

In some instances, the vehicle would be registered in a fictitious name or in the lienholder name of the dealership. This was done to prevent seizure by the local police if the vehicle was confiscated in a drug deal or by the Government in a tax or money laundering investigation. The owners of the dealership were indicted and the business seized, which included 47 luxury automobiles valued at over $1 million. The indictments included filing false forms 8300, failing to file forms 8300 and personal tax charges.

IRS Criminal Investigation has launched several investigative projects to test form 8300 compliance around the country. In New Jersey, yacht brokers and real estate title companies were identified as businesses filing few form 8300s.

Agents did comparison checks on CTRs filed by financial institutions showing large cash deposits by these entities with no corresponding form 8300 on file. That matching process, by the way, is a necessary tool and we appreciate the support we get from the FinCEN operation on that as well.

When agents made a field call to a local yacht dealer, they inquired as to a particular $27,000 cash deposit the broker had made to his business account and no form 8300 had been filed. The broker explained that he had received the cash in three increments and produced records showing the sale of a yacht to a Philadelphia pharmacist for $360,000. The yacht broker's records showed that almost all the payments received on the sale were $9000 checks that the buyer had purchased at numerous financial institutions.

The ensuing investigation, joined by the Drug Enforcement Agency, resulted in the indictment of the pharmacist who had been selling a combination of codeine and methamphetamine on phony prescriptions.

Chairman PICKLE. Mr. Murphy, you have just given us an example now in Maryland where the dealer had been dealing in a Mercedes Benz purchase. He said he was indicted and they seized the car. In Los Angeles, an automobile dealership, the same essential procedure was followed and the owners of the dealership were indicted.

Now, you give me this last case of the one I guess in Philadelphia where the investigation had resulted in the indictment of the pharmacist. Have you had indictments? Are there cases pending on those? Has there been prosecution or conviction, or do you just indict them and move in and take over the dealership and its equipment? Have there been convictions on these?

Mr. MORICS. These cases that Mr. Murphy just mentioned, are still pending so the cases are awaiting action in the courts.

Chairman PICKLE. How long have you been holding them?

Mr. MORICS. I can't tell you. We can get that information for you.

[The following was subsequently received:]

STATUS OF FORM 8300 CASES CRIMINAL INVESTIGATION, OCTOBER 15, 1990

A manual inquiry was performed by all Criminal Investigation offices in the 63 IRS District regarding Form 8300 cases. This inquiry disclosed that we currently have 62 cases under investigation and have referred 65 cases for prosecution. Of those cases referred for prosecution, a total of 13 have been convicted; 33 have been indicted and are awaiting trial; and 19 are pending indictment at a U.S. Attorneys office.

There can be several reasons why a case remains at the preindictment or pretrial stage. Lack of access to a Grand Jury, due to heavy workload, can cause an indictment to be delayed. Similarly, a crowded docket in the Federal District Court, or plea negotiation, can result in postponement of a trial.

Chairman PICKLE. For a year or two?

Mr. **Morics**. No, these are fairly recent.

Chairman **Pickle**. Is an indictment pending? Is the Justice Department attempting to make a conviction on those cases?

Mr. **Morics**. Yes. The indictments have been returned and those cases are awaiting action in the courts. It is somewhat difficult for us to capture the convictions we have had, although there haven't been many for pure 8300 violations because of the way we keep our records. Violations would be under a failure to file statute including a 1040.

It is tough to break these out. We usually work these cases as part of an operation involving a major drug operation of some sort and part of what happens is you look at different statutes that would apply and often we will charge people with title 18, 1956, which is a money laundering statute, even though it may involve an 8300 because that has a much stiffer penalty, a 20-year jail term associated with it and a much stiffer fine.

So we are developing a recordkeeping system which should give us better information, but right now we are unable to give you the kind of statistical data that we would like to tell you what is going on in that area.

Chairman **Pickle**. The committee would like to be advised.

Mr. **Murphy**. I think this is probably a good opportunity as well to show you a clip on a recent indictment in Milwaukee. I have here a headline that says, "Car Dealer Cases Send Message, Officials Say." Another headline says, "Indictment of Two Dealerships Stun Others." I think this goes back to Mr. Shaw's point that if indictments and convictions take place, this type of educational process is there both on the positive side and on the enforcement side then we can deal with this problem in a more effective way.

I might also add that I am very, very confident that as we develop the cases and refer them to the Department of Justice that we will receive effective support in bringing the appropriate taxpayers to prosecution.

I would like to submit this for the record, if I may.

Chairman **Pickle**. Without objection.

[The following was subsequently received:]

Insert 146a

War on drugs

Indictments of 2 dealerships stun others

Federal authorities have seized the cars at the 2 dealers' lots

By JAMES GRIBBLE
and FERDINAND M. DE LEON
of The Journal staff

After most of the used cars had been impounded and cleared from the lot of Olympic Auto Sales, 5616 W. Lisbon Ave., the shock that its owner had been charged with laundering money for drug dealers lingered among the other used-car dealers and auto shop owners nearby.

Dennis G. Antzoulatos, 36, and two others were charged with crimes relating to laundering drug money in two indictments unsealed Thursday.

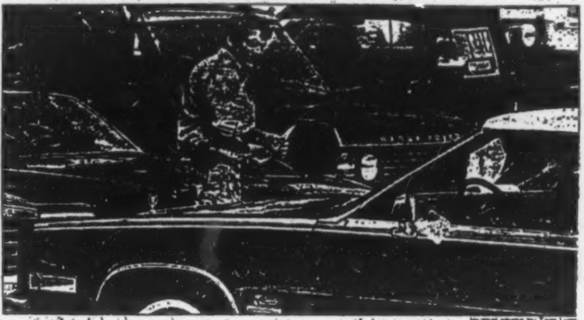
"I really can't believe what's going on," said Don Myszka, the manager of Tony Kreif Motors, 5707 W. Lisbon Ave. "This definitely came as a surprise."

In what may turn out to be the biggest seizure of drug-related assets yet in southeastern Wisconsin, federal Drug Enforcement Administration agents and Milwaukee police confiscated a total of 142 used cars Thursday from Olympic Auto Sales and Harry Kaufmann Motorcars, 5858 N. Green Bay Ave., Glendale.

The indictments charged Antzoulatos, of 1352 N. 46th St., and Grace C. Jim, 55, of 1715 S. 53rd St., who has worked for Antzoulatos as a salesperson and bookkeeper; and Kaufmann Motorcars president Harry C. Kaufmann, 37, of 126 Miller Dr., Mequon.

The two car dealers allegedly did business with six known drug dealers, all of them now serving lengthy federal sentences. One was Errol J. Jackson, reputed to be among the bigger cocaine dealers in the inner city.

Please see Dealers page 4



Journal photo by Tom Lynn

A FEDERAL AGENT places seizure notices on cars Thursday at Harry Kaufmann Motorcars in Glendale. Kaufmann and two others were charged with crimes related to laundering drug money.

Friday September 14, 1990

Dealers/Money laundering is alleged in indictments

From page 1

A task force of federal agents, led by the IRS, seized both dealerships Thursday morning. Federal prosecutors are seeking their forfeiture under a federal law dealing with assets obtained through drug revenues.

It was the largest such seizure since 1985, when the Justice Department confiscated a Pewaukee foundry that had served as the front for a drug ring. The foundry, Accurate Brass and Aluminum, was valued at the time at about $1.9 million.

The assets seized Thursday probably will amount to much more than that, according to local DEA chief Kelly Snyder.

At Kaufmann's bail hearing, his attorney estimated the inventory at the Kaufmann lot was worth $1.5 million. Kaufmann Motorcars dealt in used luxury cars and exotic sports cars, both foreign and domestic models. It was the second of the two lots raided Thursday, and 86 vehicles were impounded there, according to Asst. US Atty. Mel S. Johnson.

Johnson said 56 vehicles were impounded at Antzoulatos' lot. He sold all makes of used cars, Snyder said.

Kaufmann was charged in a five-count indictment alleging that he laundered drug money and structured cash transactions to circumvent federal reporting requirements. In one instance, he is alleged to have agreed to sell a Porsche to an undercover IRS agent posing as a drug dealer.

As part of the war on drugs, businesses are required to report all cash transactions in excess of $10,000 to the IRS. Structuring cash payments in smaller chunks is illegal.

Antzoulatos and Jim were charged with conspiracy to launder drug money. They allegedly doctored papers to disguise the true identity of drug dealers who were buying and selling vehicles through them. Antzoulatos also was charged with three money-laundering counts involving the sale of individual vehicles.

Federal Magistrate Aaron E. Goodstein allowed the release of Kaufmann and Jim on signature or property bonds, without cash bail, but set $50,000 bail for Antzoulatos. Asst. US Atty. R. Jeffrey Wagner told Goodstein that Antzoulatos had been tape-recorded telling an informant he would flee to Greece, his native country, if he was charged.

"While this is a money-laundering case, it also is steeped deeply in drug dealing," Wagner said.

A not-guilty plea was entered for Antzoulatos by Goodstein. Jim and Kaufmann both pleaded not guilty through their lawyers.

If convicted as charged, Kaufmann could face up to 100 years in prison and $2.5 million in fines, and Antzoulatos could face up to 80 years in prison and $2 million in fines. Jim could get up to 20 years, plus a $500,000 fine.

In a related development, the Internal Revenue Service plans to send out a statewide letter to auto dealers reminding them of federal drug laws requiring the reporting of large cash transactions.

On Thursday morning, Myszka and his co-workers watched in amazement across the street from Olympic Auto as agents struggled to start the used cars on the lot, and then drove them onto an automobile hauler. They saw Antzoulatos and Jim taken into custody and watched as police dogs trained to sniff out drugs were used in a search of autos on the lot and the office area.

"We never had any problems with him," Myszka said. "I never really associated with him much. He never really associated with many of the guys."

The simultaneous confiscation of property at Harry Kaufmann Motorcars elicited a similar reaction from others who knew and had done business with Kaufmann.

"He had a pretty well-organized operation," said Ron Faucette, the owner of Silver Spring Automotive, 5902 N. Green Bay Ave.

Bill Ehrhardt, the manager of the Silver Spring shop, said Kaufmann was a hardworking man who was at his dealership when it opened in the morning and stayed there until closing, which sometimes wasn't until 9 p.m.

'SEEMED LIKE A NICE GUY'

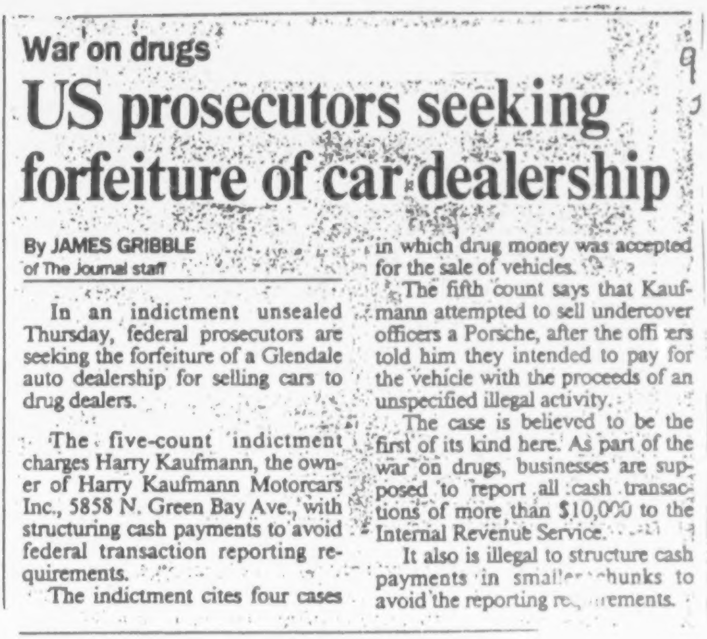
"He seemed like a nice enough guy who kept his business in line," Faucette said.

The indictments raise the question of how common it is in the business to take dirty money.

"I would only say this is not the first time I ever heard about it," said the DEA's Snyder.

A spokesman for a group representing most new-car dealers in Milwaukee, and several used-car dealerships, said the car business was good about policing itself.

"I can't believe this is a prevalent type of thing," said Don Hansen, executive vice president of the Automobile Dealers Association of Mega Milwaukee. He called the events Thursday "a very lamentable situation."



War on drugs

US prosecutors seeking forfeiture of car dealership

9

By JAMES GRIBBLE
of The Journal staff

In an indictment unsealed Thursday, federal prosecutors are seeking the forfeiture of a Glendale auto dealership for selling cars to drug dealers.

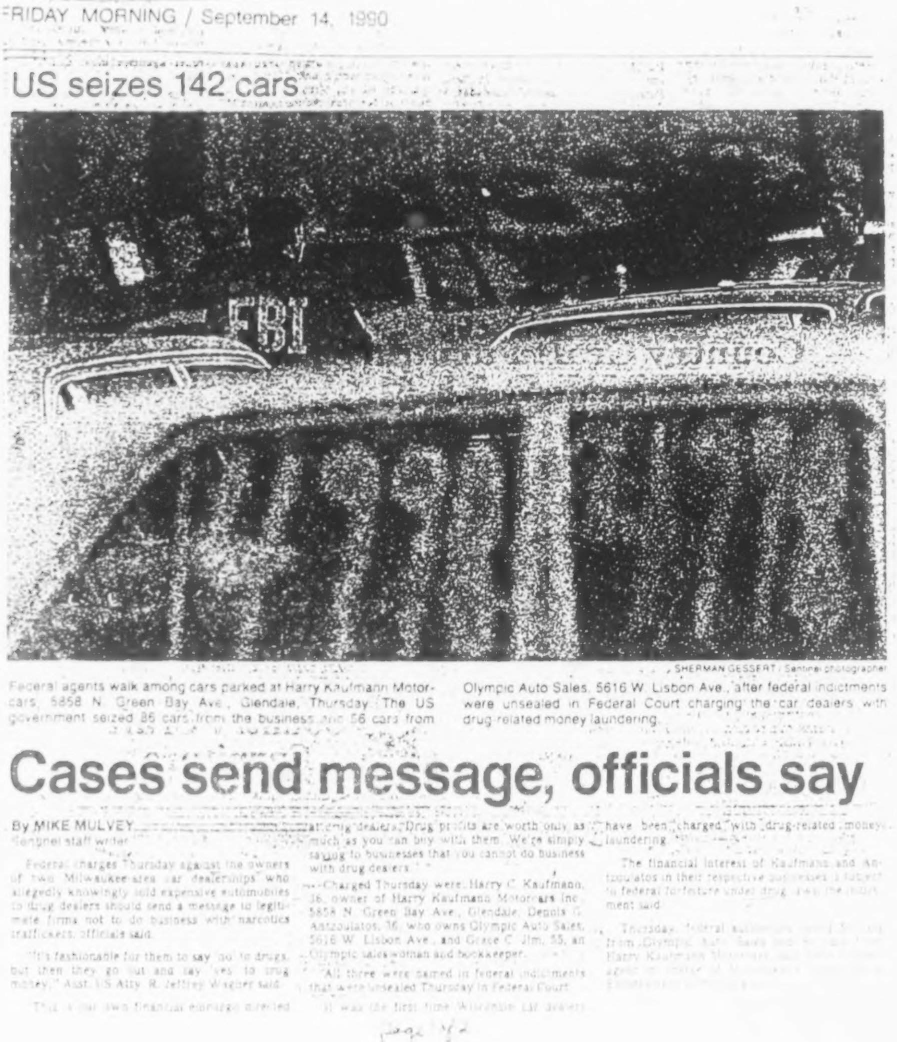
The five-count indictment charges Harry Kaufmann, the owner of Harry Kaufmann Motorcars Inc., 5858 N. Green Bay Ave., with structuring cash payments to avoid federal transaction reporting requirements.

The indictment cites four cases in which drug money was accepted for the sale of vehicles.

The fifth count says that Kaufmann attempted to sell undercover officers a Porsche, after the officers told him they intended to pay for the vehicle with the proceeds of an unspecified illegal activity.

The case is believed to be the first of its kind here. As part of the war on drugs, businesses are supposed to report all cash transactions of more than $10,000 to the Internal Revenue Service.

It also is illegal to structure cash payments in smaller chunks to avoid the reporting requirements.



FRIDAY MORNING / September 14, 1990

US seizes 142 cars

SHERMAN GESSERT / Sentinel photographer

Federal agents walk among cars parked at Harry Kaufmann Motorcars, 5858 N. Green Bay Ave., Glendale, Thursday. The US government seized 86 cars from the business and 56 cars from Olympic Auto Sales, 5616 W. Lisbon Ave., after federal indictments were unsealed in Federal Court charging the car dealers with drug-related money laundering.

Cases send message, officials say

By MIKE MULVEY
Sentinel staff writer

Federal charges Thursday against the owners of two Milwaukee-area car dealerships who allegedly knowingly sold expensive automobiles to drug dealers should send a message to legitimate firms not to do business with narcotics traffickers, officials said.

"It's fashionable for them to say 'no' to drugs, but then they go out and say 'yes' to drug money," Asst. US Atty. R. Jeffrey Wagner said.

"This is our own financial embargo directed at drug dealers. Drug profits are worth only as much as you can buy with them. We're simply saying to businesses that you cannot do business with drug dealers."

Charged Thursday were Harry C. Kaufmann, 36, owner of Harry Kaufmann Motorcars Inc., 5858 N. Green Bay Ave., Glendale; Dennis G. Antzoulatos, 36, who owns Olympic Auto Sales, 5616 W. Lisbon Ave., and Grace C. Jim, 55, an Olympic saleswoman and bookkeeper.

All three were named in federal indictments that were unsealed Thursday in Federal Court.

It was the first time Wisconsin car dealers have been charged with drug-related money laundering.

The financial interest of Kaufmann and Antzoulatos in their respective businesses is subject to federal forfeiture under drug laws, the indictment said.

Thursday, federal authorities seized [illegible] from Olympic Auto Sales and [illegible] from Harry Kaufmann Motorcars, said [illegible] agent in charge of Milwaukee's [illegible] Enforcement [illegible]

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Car dealer cases send message, officials say

CARS / FROM PAGE 1

Officials declined to place a value on the seized vehicles, but Kaufmann's attorney, Franklyn M. Gimbel, said the confiscated inventory of his client was worth $1.5 million.

Kaufmann faces up to 100 years in prison and a $2.5 million fine, while Antzoulatos faces up to 80 years in prison and a $12 million fine. Jim could be imprisoned for up to 20 years and fined $500,000.

Snyder said the stiff penalties were justified in such cases.

"They are allowing drug dealers to circumvent the system," he said. "They are allowing them to launder drug money."

Snyder indicated similar charges may be brought against other businesses.

"This is not necessarily the only two firms we're looking at," he said.

Snyder said the Kaufmann case was spearheaded by the Internal Revenue Service, while the DEA led the investigation into Antzoulatos and Jim.

To make sure the message of deterrence hits home, the IRS next Monday will mail registered letters to all auto dealerships in Wisconsin reminding them of federal laws related to large cash sales.

Businesses must file a special report for any cash sale of $10,000 or more.

Wagner, who is prosecuting Antzoulatos and Jim, said car dealers were not the only business owners the government might target. He said jewelers and [illegible] who dealt in expensive wares should avoid doing business with drug dealers.

Kaufmann, of 126 Miller Dr., Mequon, is charged with selling three Mercedes-Benz automobiles and a Corvette to three different drug dealers in 1988. All three drug dealers have since been convicted on drug trafficking charges.

Kaufmann also is charged in connection with a sting operation March 29 in which Kaufmann allegedly agreed to sell undercover IRS agents a Porsche with cash they identified as drug proceeds.

Antzoulatos, of 1352 N. 46th St., is charged with selling a Mercedez-Benz, a Rolls-Royce, a Nissan and a Chevrolet Blazer to Errol J. Jackson, who earlier this year was acquitted on federal drug conspiracy charges, but convicted of laundering drug profits.

Jackson, who also was convicted of state drug charges, is serving a 25-year sentence in the federal prison at Leavenworth, Kan.

Antzoulatos also is accused of selling automobiles to other drug dealers. In some cases, he allegedly would list a third party as the buyer when, in fact, the car was going to a drug dealer, the indictment said.

Jim, of 1715 S. 53rd St., is charged with assisting Antzoulatos in some of the transactions.

Kaufmann and Jim entered not guilty pleas late Thursday before federal Magistrate Aaron E. Goodstein. Antzoulatos declined to enter a plea, and Goodstein entered a not guilty plea on his behalf.

Goodstein set bond at $50,000 each for Kaufmann and Antzoulatos. Jim was released on a signature bond.

Kaufmann's cars, which often included Rolls-Royces, Excalibers, Mercedes-Benzes and BMWs, carried price tags as high as $100,000. He also exported many cars to Japan, the Philippines, Australia, Switzerland, France and England.

Some of his foreign buyers travel to his dealership to inspect the cars.

In an interview last year with a Milwaukee Sentinel reporter, Kaufmann said, "I had a guy who bought a $70,000 car and I put him into a $69 room and he said, "'Isn't there anything less expensive?' So I put him in a cheaper room."

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Local news

MILWAUKEE SENTINEL Saturday, September 15, 1990 / PAGE 5, PART 1

Drug money isn't being socked away

Most ends up being spent at legitimate businesses, IRS agent says

By MIKE MULVEY
Sentinel staff writer

Legitimate businesses such as the two car dealerships whose owners were charged with money laundering ultimately receive most of the estimated $100 billion that cocaine dealers make annually in this country, an official said Friday.

"Drug dealers make a lot of money, and they are going to spend it. We don't believe drug dealers are putting their money into IRAs for their retirement when they're in their 60s," Internal Revenue Service special agent Richard A. Ruffin said.

Ruffin said Harry C. Kaufmann, 36, owner of Harry Kaufmann Motorcars Inc., 5858 N. Green Bay Rd., Glendale, and Dennis G. Antzoulatos, 36, owner of Olympic Auto Sales, 5616 W. Lisbon Ave., allegedly relied on methods commonly used nationwide to help drug dealers launder money.

Kaufmann: Indicted auto dealer

Kaufmann, Antzoulatos and Grace C. Jim, 55, an employee of Antzoulatos, were indicted by a federal grand jury on money laundering charges.

Authorities Thursday seized 142 cars with an estimated value exceeding $2 million from the dealerships.

Ruffin said both dealerships allegedly helped drug dealers put titles of expensive cars in the names of third parties. They also allegedly structured payments to try to avoid IRS cash transaction reporting requirements, he said.

In structured transactions, the buyer makes a series of payments in cash or cashier's checks of under $10,000 over a period of weeks. When the sale price of $40,000 or $50,000 for a Mercedes-Benz or Rolls-Royce is reached, the dealer then would turn the car over to the buyer.

All businesses must file an 8300 form for cash transactions of $10,000 or more. All financial institutions must file a currency transaction report, or CTR, for cash withdrawals and deposits of $10,000 or more.

"We're getting millions of CTRs nationally from the banks," Ruffin said. "But in Wisconsin last year, there were fewer than 300 8300 forms filed."

Ruffin said the amount of drug dealing in Wisconsin would indicate there were many more than 300 $10,000-plus cash transactions within the state.

To avoid reporting requirements, both Harry Kaufmann Motorcars Inc. and Olympic Auto Sales allegedly accepted a series of cash payments and cashier's checks of less than $10,000 for various luxury cars, Ruffin said.

In 1988, Kaufmann allegedly sold a $50,000 Mercedes-Benz to a known drug dealer by accepting "multiple payments of approximately $8,000 each over a period of one month until the car was paid for," an IRS search warrant affidavit said.

Kaufmann used some of the money to purchase cashier's checks "because he did not want to have the cash on the premises," the affidavit said.

Ruffin said the IRS this week sent out 2,683 notices to every vehicle dealer in Wisconsin, informing them of reporting requirements.

He said similar mailings were planned for furriers, jewelers, real estate offices and travel agencies, which offer big ticket items attractive to drug dealers.

"We're not here to intimidate business people. I don't want to intimate that every large currency transaction involves a drug dealer. We're not saying every auto dealer in the state of Wisconsin is dirty."

But Ruffin said business owners have to use common sense and when offered a large amount of cash, they should demand a reasonable explanation.

"If it doesn't pass the smell test, give us a call," he said.

Mr. **Murphy**. Moving right along, Mr. Shaw, another example of the New Jersey project identified an individual who had purchased more than $1 million worth of real estate. When contacted by agents, the individual claimed to have received the money from a deceased drug kingpin. The story later proved false and the individual is now under investigation.

Last year, an attorney deposited $80,000 in cash in his account. The bank alerted Criminal Investigation of the transaction and complained that the currency had a peculiar odor and appearance. The cash was analyzed by the U.S. Secret Service laboratory here in Washington. Although no narcotics residue was present, it was determined that the notes, all $10s and $20s, had been buried together.

The Detroit Computing Center was notified to perform a special search and to alert the San Diego office if the attorney filed a form 8300 within the 15-day period. The attorney did file the form but declared the amount as "over $10,000." Did not have a specific amount.

He also inscribed "attorney-client" privilege as to the remaining questions on the form. This and other similar situations are under civil litigation and summons enforcement by the Service.

The spouse of an executive under investigation for participation in a savings and loan fraud case is currently under investigation for structuring cash payments and deposits. The target was determined through a CTR filing.

Criminal Investigation has embarked on several compliance education campaigns around the country. In Dallas, a match was conducted of CTR and corresponding form 8300 filings by car dealerships. Letters were generated to specific car dealerships detailing the requirements of 6050I and highlighting discrepancies found in their CTR and 8300 filings.

These efforts generated mass delinquent form 8300 filings by Dallas area car dealers. The incoming forms were then compared with criminal indices and several known narcotics violators were revealed. Criminal Investigations are being pursued. Whether there should be more and whether more has to be done, I think has been pretty much agreed to here this morning.

These and other similar efforts around the country are beginning to impart the full responsibility of the laws on those who should be filing forms 8300. News publications of those prosecuted for violating the requirements, such as the two car dealerships mentioned earlier, the Milwaukee case I mentioned, are also having a positive compliance impact.

Businesses are starting to file suspicious transaction forms 8300. The 1990 version of the form 8300 includes a prominent block at the top to be checked if the business believes the transaction to be suspicious. The Detroit Computing Center has received 305 forms 8300 filed for amounts under $10,000 in the period January to July 1990.

The reality still exists that businesses will gamble and choose to accept a sale rather than refuse cash transactions that insist on anonymity. Even though the penalties were increased from a 1- to a 5-year misdemeanor, many businesses continue to risk the slim chance of criminal prosecution in favor of completing the sale.

Again, your investigators pointed that out this morning on incomplete transactions.

Since the civil penalty is equal to 10 percent of the transaction, an automobile dealer gambled on a penalty of $3,000 for a $9,000 profit made on the car sale. That is real gambling.

The form 8300 compliance level is unsatisfactory. Part of the problem is the general lack of knowledge, or claimed lack of knowledge, on the part of businesses.

In IRS, our job is to provide information to taxpayers that want to comply, the opportunity to do it and do it right. Among the steps being pursued to counter this lack of knowledge is the creation of two new documents. Attached is a copy of the new IRS Notice 923, "A Guide to Reporting Cash Transactions for Trades and Business," which has just been released. The other will be publication 1544, "Reporting Cash Payments of Over $10,000," which will be available in November. These documents will be used in our efforts to educate businesses on form 8300 filing requirements.

Many district and regional offices have explored various methods of identifying and contacting businesses liable for filing forms 8300. Some of these projects used personnel from a single function to personally contact likely businesses.

In other projects, individuals from Collection, Criminal Investigation, and Examination participated in the contacts. For example, last month the Birmingham District contacted 131 businesses to test their compliance. Of those, 60 percent, 79 of them were found to be in violation of the form 8300 filing requirements. That is not as high a percentage, Mr. Chairman, as you reported this morning, but it certainly is further indication of the problem.

Approximately $2 million in unreported cash transactions was identified and some $18,000 in civil penalties have been proposed. Additionally, the Miami office sent out two-person teams to personally contact some 400 import-export businesses to explain these requirements.

Mr. Anthony earlier pointed out the need for education, and I would like to report that several offices have sent mailings to selected occupational groups. The Milwaukee District Office used certified mail to advise the 2,200 new and used car dealers in the State of the section 6050I requirements and provide instructions for filing forms 8300. And, yes, that item is very well covered in the press clipping that I have submitted for the record. The Fresno office mailed notices to all reporting auto and boat dealers filing with that service center. The Richmond district sent a three-fold brochure through the Virginia State sales tax mailings.

So we believe that an increased education campaign needs to be conducted nationwide. Professional trade associations such as the National Automobile Dealers Association, numismatic and gemologist groups, and the various State boards of realty need to become involved in encouraging their members to be alert to reporting illegal cash dealings.

Chairman PICKLE. Do these district offices or regional offices have the discretion to conduct these special mailing programs?

Mr. MURPHY. Yes, they do, Mr. Chairman. I can assure you that there is no problem in that.

I can give you all kinds of examples of what is going on in various parts of the country, but I think you would agree that the national approach to this is something that will ensure that it is covered throughout the country. But they do have the discretion to do it and we would coordinate that with them at the national, regional and district.

Chairman PICKLE. They have that discretion, but what leadership do they have from you? Do you encourage them to do that? Do you have a national policy?

Mr. MURPHY. Yes, Mr. Chairman, but we have to do it more and it has to have more of a national leadership to it. I submit to you that that is exactly what we intend to do.

Chairman PICKLE. I think it should be a form of national policy.

Mr. MURPHY. Thank you, sir.

Let me conclude, Mr. Chairman, by saying that while compliance with the form 8300 reporting requirements is poor, our efforts are beginning to bear fruit.

This month, a business had a customer agree to buy an item for over $10,000 in cash. When they sought personal information for completion of the form 8300, the purchaser expressed opposition to having the transaction reported to IRS and canceled the transaction, like we heard this morning.

However, the individual then returned with a series of money orders to purchase the item. After the sale, the business prepared a form 8300 to the best of their ability and explained the events that had transpired. This case has been referred for investigation.

We feel that as the business community becomes more aware of the requirements and more publicity generated, compliance should improve.

We will continue to improve our education and enforcement efforts, and we certainly want to thank you again for your support, Mr. Chairman, in holding this hearing and also for what you have been able to do to support our 1991 budget, which I think is essential for us to have the resources to deal with these type of problems as they occur.

Thank you very much, Mr. Chairman. We are all three available to answer whatever questions you may have.

[The prepared statement and attachments follow:]

Statement of

Michael J. Murphy

Senior Deputy Commissioner

Internal Revenue Service

Before the

Subcommittee on Oversight

House Committee on Ways and Means

September 20, 1990

Mr. Chairman and Members of the Subcommittee:

With me today are Inar Morics, Assistant Commissioner (Criminal Investigation) and Marshall V. Washburn, Deputy Assistant Commissioner (Examination). We appreciate the opportunity to appear before you today to discuss the IRS contribution to Federal efforts to combat money laundering. Our emphasis today will be on reports required to be filed by businesses under Internal Revenue Code section 6050I. We will be glad to answer any questions you may have at the conclusion of this opening statement.

The IRS welcomes this hearing into our activities to combat money laundering. As you are aware, IRS devotes substantial resources to this effort. Both the Currency Transaction Report (CTR) and the Form 8300, Report of Cash Payments over $10,000 Received in a Trade or Business, provide important leads for these investigations. There is inadequate compliance by those responsible under section 6050I for filing the Form 8300. We welcome your interest and attention to our efforts to educate the business community on its responsibilities in this vital area. The problems we face with Form 8300 compliance are similar to the compliance problems we faced with regulated financial institutions regarding Currency Transaction Reports in the past.

Overview

Money laundering is the concealment of the existence, nature or illegal source of illicit funds in such a manner that the funds will appear legitimate if discovered. Thus, 'dirty' money is washed in order to appear 'clean'. To many people, money laundering is equated solely with the proceeds of narcotics trafficking. However, to IRS, it includes income from any illicit activity, including white collar crime, as well as unreported income from an otherwise legitimate activity.

Key tools in the detection of illicit income are the requirements for the reporting of certain financial transactions established by Titles 31 and 26 of the United States Code. The Title 31 requirements date from 1970 with enactment of the Bank Secrecy Act. This Act requires financial institutions to file Currency Transaction Reports on certain cash transactions in excess of $10,000. The reports are filed with our Detroit Computing Center where they are incorporated into a data base with financial and currency information from other reports. The CTR information is transmitted to the Customs Service by magnetic tape which permits weekly updates to the Treasury Enforcement Communication System maintained by Customs.

Also included in these data bases is information from Forms 8300, which report the receipt of more than $10,000 by a person engaged in a trade or business as required by section 6050I. This section was added in 1984 to establish a reporting mechanism for entities not covered under Title 31, such as auto dealers, insurance companies, and dealers in precious metals. Analysis of this information has aided IRS in identifying and prosecuting criminal violations, as well as assessing additional taxes on unreported income.

There are over 7,000 IRS employees with on-line access to the data base in Detroit. While much of the publicity and this testimony revolve around the use of this data for IRS Criminal Investigation purposes, it is used by all IRS functions with increasing frequency.

During August 1990, Examination, Criminal Investigation and Collection personnel made 23,000, 16,000 and 4,000 queries, respectively of the Detroit Data Base. Examination personnel use the data when developing Title 31 and Form 8300 compliance projects, in the development of potential fraud cases, when conducting package audits, and in situations where the examiner is seeking leads on additional income or assets. It is also used by Collection personnel seeking asset or income sources from which to collect delinquent accounts.

Compliance with the CTR reporting requirements by financial institutions was inadequate for many years, despite various educational and compliance efforts by IRS and Treasury. In 1985, the Bank of Boston pled guilty to Bank Secrecy Act violations. This was followed by the assertion of a number of large civil penalties by the Treasury. Since then compliance by banks has improved dramatically. CTR filings increased from fewer than 70,000 per month to the present level of over 500,000 per month. We are now faced with a similar problem in compliance with the section 6050I reporting requirements. Despite a variety of educational and compliance efforts, only a few thousand are filed each month.

The ways in which funds can be laundered are limited only by the imagination. Money laundering may include the movement of cash domestically or internationally through financial institutions or conversion of cash into assets. In the past it was fairly easy for a money launderer to locate a bank that would agree not to file a CTR. This is no longer the case. Compliance by the banking community is quite good. Current CTR reporting problems generally involve the unregulated financial institutions such as currency exchanges. As you know, the House Banking Committee has been exploring possible solutions in this area.

The Assistant Commissioner (Criminal Investigation) has responsibility for criminal investigation activities across the country, while the Assistant Commissioner (Examination) has responsibility for all examination activities. At this point we would like to describe the efforts of these offices in combatting money laundering.

Examination

Examination's mission is to identify those returns most in need of examination and to conduct quality examinations. In order to accomplish this, we must allocate our limited resources across a variety of tax returns, such as income, estate, gift, employment and excise. In addition, we have established tax abuse and other special programs. One of the latter is our currency and banking reports program which includes two activities. Both activities are intended to promote compliance with the reporting and recordkeeping requirements regarding cash transactions.

The first activity reflects the IRS responsibility for ensuring Title 31 civil compliance, the filing of CTRs, by financial institutions not examined by any other Federal agency for safety or soundness. Examples of these nonbank financial institutions include: check cashing services; currency exchange operations; issuers, redeemers or cashiers of travelers checks, money orders, or similar instruments; and licensed gambling casinos with gross revenue exceeding $1 million.

The types of businesses providing such services are extremely varied. For example, it is possible to purchase money orders or arrange for the wire transfer of funds through customer service departments of many grocery stores, truck stops, convenience stores, and travel agencies. This diversity creates a major task just to identify the entities who should be filing CTRs.

Examination conducts specific Title 31 compliance checks on these institutions separately from our tax examinations under Title 26. The resources committed to performing these compliance checks has been increased by 100% over the past four years. In fiscal year 1991, we have planned for an increase of 38%, which will mean the commitment of 81 staff years to this activity.

The second activity included in our currency and banking reports program is the administration of the information reporting provisions of section 6050I. Compliance with the requirement to file Forms 8300 is checked during our package audit process. The package audit concept is a required examination procedure which calls for revenue agents to ensure that all tax returns and documents have been filed by the taxpayer under such an examination. This is an incremental addition to the time expended in the examination of entities selected for package audits and results are not separately reported. While an effective method of allocating our limited resources, this approach has the disadvantage of not providing specific statistics on resources applied or results obtained.

Another method for checking on section 6050I compliance is through local compliance initiatives. Currently, there are 20 Form 8300 compliance projects being tracked by our seven regional offices. The Manhattan and Boston Districts have each established an examination group focused on money laundering and white collar crime.

In addition, three national projects have been developed to assist in the identification of businesses most in need of compliance checks. The first project addressed attorneys who filed incomplete Forms 8300, asserting that a completed form would mean a violation of the attorney/client privilege. The missing information is being sought through service of administrative summonses. Some attorneys have complied while others have not. A New York summons enforcement case was decided in the government's favor at the District Court level and is now on appeal. An additional 21 cases proposing summons enforcement litigation have been referred to the Justice Department. The other two national projects involve the identification of nonfilers.

Criminal Investigation

In addition to the internal revenue laws, Criminal Investigation is responsible for investigating all allegations of criminal violations of the Bank Secrecy Act except violations related to the international transportation of currency and monetary instruments.

Since 1986, IRS Criminal Investigation has initiated more than 4,200 criminal cases on money launderers. Over 1,100 of these were initiated in 1990. These cases represent 27 percent of our criminal case inventory and involve about 20 percent of our criminal investigation resources. Approximately 50 cases have been initiated for violations of the section 6050I reporting requirements. Nearly all of these have been since the increased penalties were enacted. Seizures under the money laundering statutes have totaled some $135 million. Almost half of this has been seized during this fiscal year. The rate of increase is at least partly attributable to the increased training and experience of our personnel.

Over the years, Criminal Investigation has been extensively concerned with CTR compliance by regulated financial institutions. Criminal Investigation personnel have developed and conducted training sessions for bank tellers and officials. Video tape presentations on money laundering and the CTR form filing requirements have been prepared and distributed to the banking community.

Recently we have devoted a substantial amount of time to educate and to obtain the cooperation of bank personnel in identifying and reporting suspicious transactions. Such transactions may involve the purchase of monetary instruments of less than $10,000, but in the bank employee's opinion there may be structuring involved, or identification may appear to be false. Structuring refers to a technique for converting cash through a series of transactions to avoid reporting requirements. For example, if someone with $18,000 purchases two money orders for $9,000 each, they may be charged with structuring to avoid the CTR reporting requirements. If a bank employee observes a suspicious transaction, they are encouraged to file a Suspicious Transaction Report (STR). This can be indicated by checking a block on the CTR form. Statistics on such reports are maintained by the Detroit Computing Center.

Suspicious transactions may also be reported by a letter or phone call to the local Criminal Investigation office. Western Region has established a pilot program to track reports of suspicious transactions from all sources. These reports have increased from approximately 3,000 in 1986 to over 7,000 so far in 1990.

Converting illegal proceeds into autos, jewels, gold and silver coins, artifacts, and real estate is another trend among those involved in narcotics trafficking. The assets indicate economic stature and prestige to their peers as well as a method of laundering their profits. As an example, two luxury car dealerships have been seized by Criminal Investigation in the past several months for violations of the money laundering statutes and section 6050I.

One dealership in Maryland was the subject of an undercover operation in 1989. The investigation began when the dealer offered to sell a Mercedes Benz to an undercover police officer and not file a form 8300. During the operation, the dealer had been told that the cash came from narcotics sales. The investigation showed that over a four month period in 1989, the dealership had structured in excess of $400,000 into its business bank account with no Forms 8300 being filed. The proprietors were indicted for money laundering and 64 luxury vehicles were seized.

A Los Angeles auto dealership was the subject of an IRS investigation. The owners catered to the exotic tastes and large cash business of the Blood and Crip gangs. Vehicles were sold for cash with no forms 8300 being filed or filed with false information. In some instances, the vehicle would be registered in a fictitious name or in the lienholder name of the dealership.

This was done to prevent seizure by the local police if the vehicle was confiscated in a drug deal or by the government in a tax or money laundering investigation. The owners of the dealership were indicted and the business seized which included 47 luxury automobiles valued at over $1 million. The indictments included filing false Forms 8300, failing to file Forms 8300 and personal tax charges.

IRS Criminal Investigation has launched several investigative projects to test Form 8300 compliance around the country. In New Jersey, yacht brokers and real estate title companies were identified as businesses filing few 8300s. Agents did comparison checks on CTRs filed by financial institutions showing large cash deposits by these entities with no corresponding Form 8300 on file. When agents made a field call to a local yacht dealer, they inquired as to a particular $27,000 cash deposit the broker had made to his business account and no Form 8300 had been filed. The broker explained he had received the cash in three increments and produced records showing the sale of a yacht to a Philadelphia pharmacist for $360,000. The yacht broker's records showed that almost all the payments received on the sale were $9000 checks that the buyer had purchased at numerous financial institutions. The ensuing investigation, joined by the Drug Enforcement Agency, resulted in the indictment of the pharmacist who had been selling a combination of codeine and methamphetamine on phony prescriptions.

The same project identified an individual who had purchased more than a million dollars worth of real estate. When contacted by agents, the individual claimed to have received the money from a deceased drug kingpin. The story later proved false and the individual is now under investigation.

Last year, an attorney deposited $80,000 in cash in his bank account. The bank alerted Criminal Investigation of the transaction and complained that the currency had a peculiar odor and appearance. The cash was analyzed by the U.S. Secret Service laboratory here in Washington. Although no narcotics residue was present, it was determined that the notes, all $10s and $20s, had been buried together. The Detroit Computing Center was notified to perform a special search and to alert the San Diego office if the attorney filed a form 8300 within the 15-day period. The attorney did file the form but declared the amount as "over $10,000". He also inscribed "attorney-client" privilege as to the remaining questions on the form. This and other similar situations are under civil litigation and summons enforcement by the Service.

The spouse of an executive under investigation for participation in a savings and loan fraud case is currently under investigation for structuring cash payments and deposits. The target was determined through a CTR filing.

Criminal Investigation has embarked on several compliance education campaigns around the country. In Dallas, a match was conducted of CTR and corresponding Form 8300 filings by car dealerships. Letters were generated to specific car dealerships detailing the requirements of 6050I and highlighting discrepancies found in their CTR and 8300 filings. These efforts generated mass delinquent Form 8300 filings by Dallas area car dealers. The incoming forms were then compared with criminal indices and several known narcotics violators were revealed. Criminal investigations are being pursued.

These and other similar efforts around the country are beginning to impart the full responsibility of the laws on those who should be filing Forms 8300. News publications of those prosecuted for violating the requirements, such as the two car dealerships mentioned earlier, are also having a positive compliance impact. Businesses are starting to file "Suspicious Transaction" Forms 8300. The 1990 version of the Form 8300 includes a prominent block at the top to be checked if the business believes the transaction to be suspicious. The Detroit Computing Center has received 305 forms 8300 filed for amounts under $10,000 in the period January-to-July 1990.

The reality still exists that businesses will gamble and choose to accept a sale rather than refuse cash transactions that insist on anonymity. Even though the penalties were increased from a one to a five-year misdemeanor, many businesses continue to risk the slim chance of criminal prosecution in favor of completing the sale. Since the civil penalty is equal to 10% of the transaction, an automobile dealer gambled on a penalty of $3000 for a $9000 profit made on the car sale.

Compliance Efforts

The Form 8300 compliance level is unsatisfactory. Part of the problem is the general lack of knowledge, or claimed lack of knowledge, on the part of businesses.

Among the steps being pursued to counter this lack of knowledge is the creation of two new documents. Attached is a copy of the new IRS Notice 923, "A Guide to Reporting Cash Transactions for Trades and Business," which has just been released. The other will be Publication 1544, "Reporting Cash Payments of Over $10,000" which will be available in November. These documents will be used in our efforts to educate businesses on Form 8300 filing requirements.

Many district and regional offices have explored various methods of identifying and contacting businesses liable for filing Forms 8300. Some of these projects used personnel from a single function to personally contact likely businesses. In other projects, individuals from collection, criminal investigation, and examination participated in the contacts. For example, last month the Birmingham District contacted 131 businesses to test their compliance. Sixty percent (79) of them were found to be in violation of the Form 8300 filing requirements. Approximately $2 million in unreported cash transactions was identified and some $18,000 in civil penalties have been proposed. Additionally, the Miami office sent out two-person teams to personally contact some 400 import-export businesses to explain these requirements.

Several offices have sent mailings to selected occupational groups. The Milwaukee District office used certified mail to advise the 2200 new and used car dealers in the state of the section 6050I requirements and provide instructions for filing Forms 8300. The Fresno Service Center mailed notices to all auto and boat dealers filing with that Service Center. The Richmond District sent a three fold brochure through the Virginia State sales tax mailings.

We believe an increased education campaign needs to be conducted nationwide. Professional trade associations such as the National Automobile Dealers Association, numismatic and gemologist groups, and the various State Boards of Realty need to become involved in encouraging their members to be alert to reporting illegal cash dealings.

Conclusion

While compliance with the Form 8300 reporting requirements is poor, our efforts are beginning to bear fruit. This month, a business had a customer agree to buy an item for over $10,000 in cash. When they sought personal information for completion of the Form 8300, the purchaser expressed opposition to having the transaction reported to IRS and cancelled the transaction. However, the individual then returned with a series of money orders to purchase the item. After the sale, the business prepared a Form 8300 to the best of their ability and explained the events that had transpired. This case has been referred for investigation.

After an oil field driller was contacted by a client and asked if he would consider selling a partial interest in a wildcat oil well for cash, the driller contacted the IRS. The driller wanted to clarify his responsibilities regarding the reporting of a cash transaction in excess of $10,000. A major auto financing corporation recently contacted IRS for clarification of the aggregation rules for reporting automobile installment payments made in cash.

We feel that as the business community becomes more aware of the requirements and more publicity is generated, compliance should improve.

We will be pleased to respond to your questions.

Department of the Treasury
Internal Revenue Service

Notice 923
(August 1990)

A Guide to Reporting Cash Transactions for Trades and Businesses

Introduction

If you receive a cash payment over $10,000 as a business transaction, you must report it to the Internal Revenue Service. Use Form 8300 for this ("A Report of Cash Payment Over $10,000 Received in a Trade or Business").

Why Report These Transactions

Sometimes smugglers and drug dealers use large cash transactions to "launder" illegally gained money. Laundered money is more difficult to trace.

The IRS can help the government stop this practice if businesses report large cash transactions. To help IRS, Congress passed the Tax Reform Act of 1984. This act requires businesses to report large cash transactions. It's patriotic and it's the law.

Who Must Use Form 8300?

In general terms, any person in a trade or business who receives more than $10,000 in cash in a single transaction or related transactions must file Form 8300.

For example, if you sell a single business product or service, and receive in one or more payments a total of more than $10,000 in cash, within a year, you must report it. For example, suppose you sell a boat for

$12,000 . The buyer pays $5,000 in a cash deposit and six months later, pays the other $7,000 in cash. You must report this transaction.

If you sell two different products to the same person in a 24-hour period (each for $6,000), these are related transactions. Since they are more than $10,000, you must file Form 8300.

In some transactions, the buyer may arrange to pay you in installments. You must file Form 8300 within 15 days after you recieve a payment that causes the total cash received within the year from the buyer to total over $10,000. After you file Form 8300, you must start a new count of cash payments received from that buyer. If you receive more than $10,000 in additional cash payments from that buyer within one year, you must file another Form 8300. You must file the form within 15 days of the payment that causes the additional payments to total more than $10,000.

If you are already required to file Form 8300 and you receive additional payments within the 15 days before you must file, you can report all the payments on one form.

You should know two things about this law. First, the transactions must be related to your business. If you ordinarily sell real estate, but sell your boat privately for more than $10,000 you don't need to report it. Financial institutions, like banks, don't file the 8300 form. They file a "Currency Transaction Report" (CTR).

When and Where to File

You have 15 days after the transaction to file the form. You can mail the form to the address on the back of the 8300. You should keep a copy of every Form 8300 you file for five years. You must give a written statement to every person named on the Form 8300 you filed. This is to notify them that you sent a Form 8300 to the Internal Revenue Service. The statements must be mailed by January 31 for Forms 8300 filed in the previous year.

If you need copies of Form 8300, just call IRS toll free at 1-800-424-1040 (1-800-829-3676 after September 30, 1990).

Notice 923
(August 1990)

Department of the Treasury
Internal Revenue Service
Catalog Number 12696A

Publication 1544
(Oct. 90)

Reporting Cash Payments of Over $10,000

(Received in a Trade or Business)

Introduction

If, in one year, you receive more than $10,000 in cash from one buyer as a result of a transaction in your trade or business, you must report it to the Internal Revenue Service (IRS) on Form 8300, *Report of Cash Payments Over $10,000 Received in a Trade or Business.*

This publication explains why, when, and where to report these cash payments. It also discusses the substantial penalties for not reporting them.

Some organizations do not have to file Form 8300, including financial institutions who must file Form 4789, *Currency Transaction Report*, and casinos who must file Form 8362, *Currency Transaction Report by Casinos*. They are not discussed in this publication.

This publication explains key issues and terms related to Form 8300. However, you should also read the instructions on the back of the form. They explain what to enter on each line.

Why Report These Payments?

Congress passed the Tax Reform Act of 1984 and the Anti-Drug Abuse Act of 1988. These Acts require you to report certain cash payments of over $10,000.

Often smugglers and drug dealers use large cash payments to "launder" money from illegal activities. Laundering means converting "dirty" or illegally-gained money to "clean" money.

The government can often trace this laundered money through the payments you report. Your compliance with the law provides valuable information that can stop those who evade taxes and those who profit from the drug trade and other criminal activities.

Who Must File Form 8300?

Generally, any person in a trade or business who receives more than $10,000 in cash in a single transaction or in related transactions must file Form 8300.

For example, you may be required to file Form 8300 if you are a dealer in jewelry, furniture, boats, aircraft, or automobiles; a pawnbroker; an attorney; a real estate broker; an insurance company; or a travel agency.

However, you do not have to file Form 8300 if the sale is not related to your trade or business. For example, if you own a jewelry store and sell your personal automobile for more than $10,000 in cash, you would not submit a Form 8300 for that transaction.

A "person" includes an individual, a company, a corporation, a partnership, an association, a trust, or an estate.

What Payments Must Be Reported?

You must file Form 8300 to report cash paid to you if it is:

1) Over $10,000,
2) Received in the course of your trade or business,
3) Received within one year in one lump sum or in separate payments,
4) Received from the same buyer (or agent), and
5) Received in a single transaction or in related transactions (defined later).

What is cash?

Only coins and currency (U.S. and foreign) are cash. Cash does *not* include bank checks, travelers checks, bank drafts, wire transfers, or any other instruments not usually accepted as money.

What is a related transaction?

Any transactions between a buyer (or an agent of the buyer) and a seller that occur within a 24-hour period are related transactions. If you receive over $10,000 in cash during two or more transactions with one buyer in a 24-hour period, you must treat the transactions as one transaction and report the payments on Form 8300.

For example, if you sell two products for $6,000 each to the same customer in one day and the customer pays you in cash, these are related transactions. Because they total $12,000 (more than $10,000), you must file Form 8300.

More than 24 hours between transactions. Transactions are related even if they are more than 24 hours apart if you know, or have reason to know, that each is one of a series of connected transactions.

For example, you are a travel agent. A client pays you $8,000 in cash for a trip. Two days later, the same client pays you $3,000 more in cash to include another person on the trip. These are related transactions, and you must file Form 8300 to report them.

What about suspicious transactions?

If you receive $10,000 or less in cash, you may voluntarily file Form 8300 if the transaction appears to be suspicious.

Any of the following may signal that a transaction is suspicious:

- An indication of possible illegal activity,
- An attempt by the buyer to convince the seller not to file Form 8300,
- An attempt by the buyer to convince the seller to file a false or incomplete Form 8300,
- The buyer's appearance, demeanor, and statements, or
- Any other facts and circumstances that arouse the suspicion of the seller.

If you are suspicious, you are encouraged to call the local IRS Criminal Investigation Division as soon as possible. Or, you can call toll free 1-800-272-2877.

When, Where, and What to File

The amount you receive and when you receive it determine when you must file. Generally, you must file Form 8300 within 15 days of a payment.

More than one payment. In some transactions, the buyer may arrange to pay you in installments. You must file Form 8300 within 15 days after you receive a payment that causes the total cash received within the year from the buyer to total over $10,000.

After you file Form 8300, you must start a new count of cash payments received from that buyer. If you receive more than $10,000 in additional cash payments from that buyer within one year, you must file another Form 8300. You must file the form within 15 days of the payment that causes the additional payments to total more than $10,000.

If you are already required to file Form 8300 and you receive additional payments within the 15 days before you must file, you can report all the payments on one form.

Where to file. You can mail the form to the address on the back of Form 8300 or to your local IRS office.

Required statement to buyer. You must give a written statement to each person named on any Form 8300 you file. The statement must show the name and address of your business and the total amount of reportable cash you received from the person during the year. It must state that you are also reporting this information to the IRS.

You must send this statement to the buyer by January 31 of the year after the year in which you received the cash that caused you to file the form.

Recordkeeping. You must keep a copy of every Form 8300 you file for 5 years.

Filing late. You may have received cash payments after 1984 (when the law went into effect) that meet Form 8300 filing requirements. If you realize that you did not file Form 8300 when you should have, you should file a form as soon as possible.

Examples

Example 1. Pat Brown is the sales manager for SMALL TOWN CARS. On June 1, 1990, Jane Smith purchased a new car from Pat and paid $18,000 in cash. Pat requested identification from Jane to get the necessary information to complete Form 8300. A filled-in form is shown in this publication.

Pat must mail the form to the address shown in the form's instructions by June 16, 1990. He must also send a statement to Jane by January 31, 1991.

Example 2. Using the same facts given in Example 1, suppose Jane had arranged to make cash payments of $6,000 each on June 1, July 1, and August 1. Pat would be required to file a Form 8300 by July 16 because he would have received two cash payments within one year (June and July) that total over $10,000. Pat would not have to report the remaining $6,000 cash payment because it is less than $10,000. However, he could report it if he felt it was a suspicious transaction.

Penalties

There are ***civil penalties*** for failure to:

- File a correct Form 8300,
- Provide the required statement to those named in the Form 8300, or
- Comply with other information reporting requirements.

There are ***criminal penalties*** for:

- Failure to file a report,
- Filing a false or fraudulent report,
- Stopping or trying to stop a report from being filed, and
- Setting up or trying to set up a transaction in a way that would make it seem unnecessary to file a report.

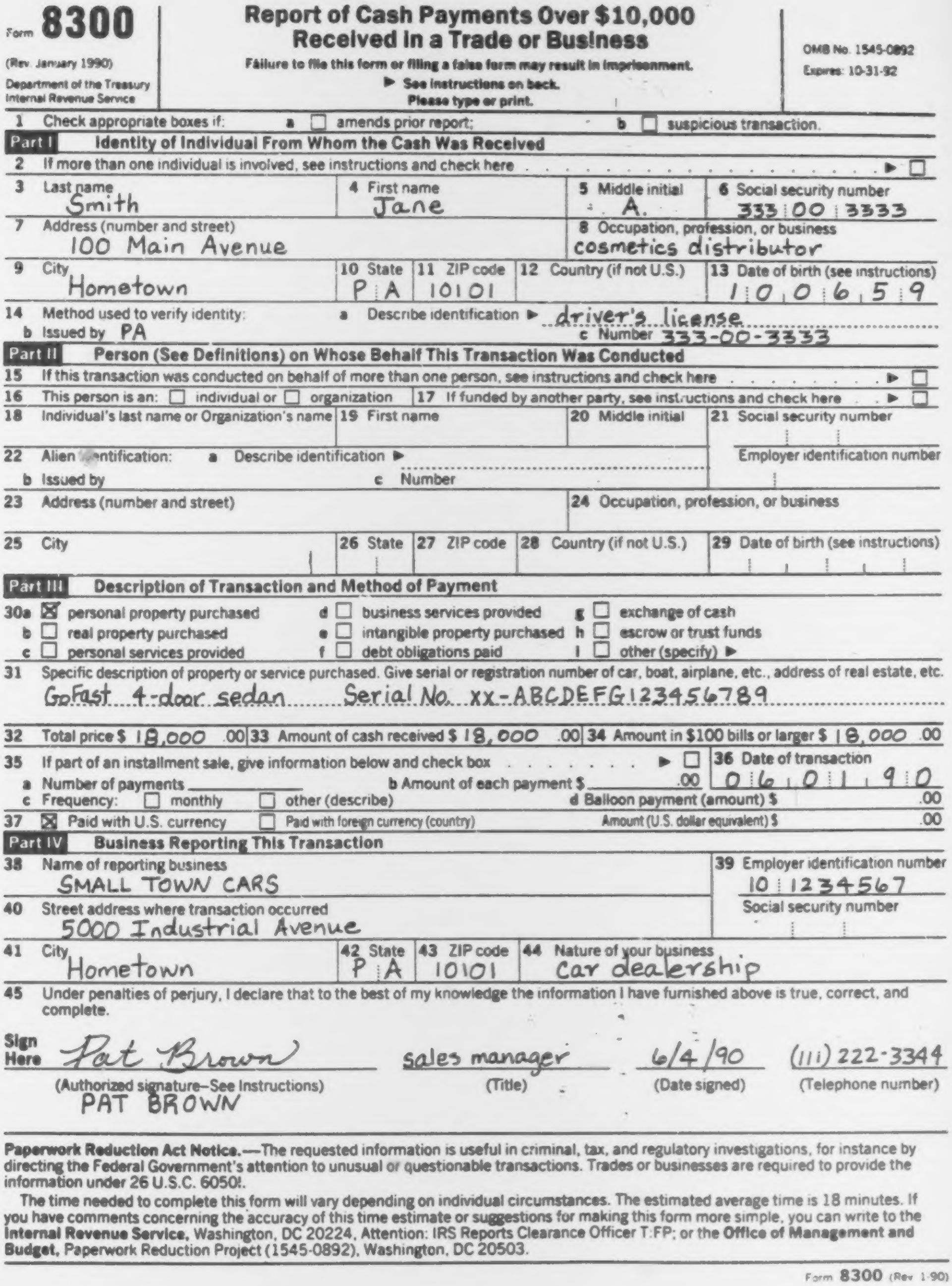
If you willfully fail to file Form 8300, you can be fined up to $25,000 ($100,000 for corporations) or sentenced to up to 5 years in prison, or both.

The penalties for failure to file also apply to any buyer who attempts to interfere with or prevent the seller from filing a correct Form 8300. This includes any attempt by the buyer to set up the transaction in a way that would make it seem unnecessary to file a report.

How to Get Form 8300

If you need copies of Form 8300, call the IRS toll free at 1-800-TAX-FORM (1-800-829-3676).

★U.S. GPO: 1990-0-517-016-22435



Form **8300**
(Rev. January 1990)
Department of the Treasury
Internal Revenue Service

Report of Cash Payments Over $10,000 Received in a Trade or Business

Failure to file this form or filing a false form may result in imprisonment.
▶ **See instructions on back.**
Please type or print.

OMB No. 1545-0892
Expires: 10-31-92

1 Check appropriate boxes if: a ☐ amends prior report; b ☐ suspicious transaction.

Part I Identity of Individual From Whom the Cash Was Received

2 If more than one individual is involved, see instructions and check here ▶ ☐

3 Last name Smith
4 First name Jane
5 Middle initial A.
6 Social security number 333 00 3333
7 Address (number and street) 100 Main Avenue
8 Occupation, profession, or business cosmetics distributor
9 City Hometown
10 State PA
11 ZIP code 10101
12 Country (if not U.S.)
13 Date of birth (see instructions) 1 0 0 6 5 9
14 Method used to verify identity: a Describe identification ▶ driver's license
b Issued by PA
c Number 333-00-3333

Part II Person (See Definitions) on Whose Behalf This Transaction Was Conducted

15 If this transaction was conducted on behalf of more than one person, see instructions and check here ▶ ☐
16 This person is an: ☐ individual or ☐ organization
17 If funded by another party, see instructions and check here ▶ ☐
18 Individual's last name or Organization's name
19 First name
20 Middle initial
21 Social security number
Employer identification number
22 Alien identification: a Describe identification ▶
b Issued by
c Number
23 Address (number and street)
24 Occupation, profession, or business
25 City
26 State
27 ZIP code
28 Country (if not U.S.)
29 Date of birth (see instructions)

Part III Description of Transaction and Method of Payment

30a ☒ personal property purchased
b ☐ real property purchased
c ☐ personal services provided
d ☐ business services provided
e ☐ intangible property purchased
f ☐ debt obligations paid
g ☐ exchange of cash
h ☐ escrow or trust funds
i ☐ other (specify) ▶

31 Specific description of property or service purchased. Give serial or registration number of car, boat, airplane, etc., address of real estate, etc.
GoFast 4-door sedan Serial No. XX-ABCDEFG123456789

32 Total price $ 18,000 .00
33 Amount of cash received $ 18,000 .00
34 Amount in $100 bills or larger $ 18,000 .00
35 If part of an installment sale, give information below and check box ▶ ☐
a Number of payments
b Amount of each payment $ .00
c Frequency: ☐ monthly ☐ other (describe)
d Balloon payment (amount) $ .00
36 Date of transaction 0 6 0 1 9 0
37 ☒ Paid with U.S. currency ☐ Paid with foreign currency (country) Amount (U.S. dollar equivalent) $ .00

Part IV Business Reporting This Transaction

38 Name of reporting business SMALL TOWN CARS
39 Employer identification number 10 1234567
Social security number
40 Street address where transaction occurred 5000 Industrial Avenue
41 City Hometown
42 State PA
43 ZIP code 10101
44 Nature of your business Car dealership
45 Under penalties of perjury, I declare that to the best of my knowledge the information I have furnished above is true, correct, and complete.

Sign Here Pat Brown sales manager 6/4/90 (111) 222-3344
(Authorized signature—See Instructions) (Title) (Date signed) (Telephone number)
PAT BROWN

Paperwork Reduction Act Notice.—The requested information is useful in criminal, tax, and regulatory investigations, for instance by directing the Federal Government's attention to unusual or questionable transactions. Trades or businesses are required to provide the information under 26 U.S.C. 6050I.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is 18 minutes. If you have comments concerning the accuracy of this time estimate or suggestions for making this form more simple, you can write to the **Internal Revenue Service,** Washington, DC 20224, Attention: IRS Reports Clearance Officer T:FP; or the **Office of Management and Budget,** Paperwork Reduction Project (1545-0892), Washington, DC 20503.

Form **8300** (Rev. 1-90)

Chairman PICKLE. Thank you, Mr. Murphy. Earlier, I had asked the Treasury Department their attitude about a proposal we might consider within this committee for an improvement on the enforcement of this program. I asked specifically should we increase the penalty from 10 to 100 percent.

Would that be a level improvement?

Mr. MURPHY. Mr. Chairman, as you pointed out to Mr. Nunez earlier, you have a high expectation that Treasury will work with you and members of your staff in coming up with improvement in that legislative area—rather than just say one at a time that there is merit to these proposals, I would first commit to you that we would look forward to working with Tax Policy and Enforcement at Treasury as well as you because, I think in all of the areas that you mentioned earlier, there is basis for improvement but we want to look at them very carefully so they can get the job done.

Chairman PICKLE. We will do that. We will probably be making recommendations to you that we would like your response. I can understand why you would not want to spur of the moment say, yes, I think we have to increase this to 100 percent.

I think we have to be careful in the definition of cash to include money orders. I appreciate that we have to be careful in making changes.

I think we will be making recommendations to you and we want you to respond.

Mr. MURPHY. We will do that.

Chairman PICKLE. Most of all, we have to take action. I am encouraged by the scope of your investigation and activities now. I am glad to see all the activity that is going on within the Department. I would like to see it brought through to conclusion so that we won't be just a big testimony that you can present, come up here before us and say we are doing all those things.

I want to know what has been accomplished. That is what the committee is after and that is why we are holding this hearing.

Mr. MURPHY. We look forward to reporting back to you.

Chairman PICKLE. It is a bad development against our society that we would allow this to go on and everybody look the other way. That simply can't be permitted. Mr. Shaw.

Mr. SHAW. Thank you, Mr. Chairman.

Mr. Murphy, other than much publicized prosecution, what would you suggest that we may do or that you might do to encourage further compliance, whether it be voluntary or whether it be by fear of being caught—is there any type of reporting mechanism that we can put in place?

Mr. MURPHY. What you may do, first of all, in my opinion, is, what you are doing today. I meant what I said about giving us the opportunity to talk about it because I think your interest and our interest is really important. I think the proposals that the chairman mentioned, specific proposals that he is going to put forth for Treasury and IRS and others to consider is another positive step.

On the IRS side, continuing to work with Treasury and receiving all the analysis that comes out of the FinCEN operation that you heard about earlier is one, and we do have a very close working relationship with that office and other law enforcement agencies.

More specifically with IRS and the subject of this hearing, we have a great obligation, I think, to make sure that the business community has a clear understanding of what is expected and we have to reinforce that. With just having education out there, that is not going to do it. We have to follow through on the investigations, the 50 that are in process, the examination work that is being done looking for leads, and I noted what was said earlier about unreported income that is escaping taxation, it is still money that is not being reported so we have to broaden our education there. But I think criminal prosecution is the real key.

Mr. SHAW. You referred to an attorney making a large deposit in the bank and then filling out and filing an incomplete 8300—is that common, and what does the IRS do automatically to follow up on such a report that is received, if anything?

Mr. MURPHY. It started with a project where we saw this pattern. I forget the numbers that I had in my testimony on that—about 900 and several were incomplete and resulted in the assertion of attorney/client privilege. There are 21 cases that are now at the Department of Justice.

I am sure the representative from Justice would comment on it. It is a problem that has gotten a lot of publicity. We are getting excellent support on it——

Mr. SHAW. Has that been litigated to determine whether there is an attorney/client privilege?

Mr. MURPHY. I mentioned that there was one case.

Mr. SHAW. I know when I was on the Judiciary Committee we debated that and had defense attorneys coming and trying to get an exemption for attorneys, but the congressional intent is certainly otherwise.

Mr. MURPHY. I am glad to hear that. I think Mr. Keeney will get into that in his testimony. I was just handed a note. We are trying to administer the laws that have been laid down by Congress, and we are getting support through the use of the summons enforcement.

There were 80 summons issued, Mr. Shaw, and as a result 26 cases were referred to the Department of Justice for enforcement.

The Department declined five of these referrals and the remaining 21 are currently at the Department awaiting a decision on the initiation of the enforcement litigation that you queried about.

Mr. SHAW. It would appear then that this may be an area of unsettled law at the time until one of the cases is prosecuted or pursued to some type of a appellate conclusion.

Mr. MURPHY. I think that is essentially correct. The Department of Justice is working with us on this.

Mr. SHAW. Does the IRS automatically follow up on an incomplete return that is received?

Mr. WASHBURN. Yes, we do.

Mr. SHAW. Thank you, Mr. Chairman.

Chairman PICKLE. Mr. Murphy, I don't want to take any more of your time—earlier Mr. Anthony inquired of Treasury about the processing of these CTRs and other forms.

A year ago nearly, one of our investigators did go, I think, to Detroit to look into this situation.

We were told at the time before the congressional hearing that these forms were being processed and everything was in good order.

We found out that some 300,000 of the CTRs were not being processed and perhaps as much as a million others of the abbreviated CTRs were way behind, not even being processed.

Essentially, is that a fair appraisal of the situation that existed at that time?

Where are you now with respect to processing these various forms?

It does no good to get these forms filed. They are not even being filed, but if they were—are we up to snuff on it now or are we way behind?

Mr. MURPHY. What you described as taking place a year ago is accurate.

I am pleased to tell you that today we are on top of that processing.

In fact, I am going to the Detroit Computing Center Monday to swear in a new director and will be happy to look into it again.

The turnaround today on CTRs is 33 days. On the form 8300, it is 12 days.

We are staying current and Mr. Nunez does a real good job of also keeping an eye on that in his role as the Assistant Secretary.

Chairman PICKLE. It sounds like we have a much better condition. I don't recall who testified that all these forms were being processed—it is in order.

I assume it wasn't you that asserted that to us.

Mr. MURPHY. To the best of my knowledge.

Chairman PICKLE. I have heard what you have said now and we are going to take it from that point on and see how we progress.

I appreciate your testimony and helpfulness and your cooperation, Mr. Murphy.

On the form 8300s, that was one of the primary reasons for this hearing. We simply have got to do better. If it is the law and the Congress put it in place, it has to be enforced.

We are just going to enforce it now, looking at it seriously.

We want action taken. If we should improve it, we want your suggestions on how to improve the forms and what action we should take.

This goes to the heart of our voluntary tax compliance system and we must address it and do it quickly and do it right so we appreciate your testimony and your cooperation.

Mr. MURPHY. Thank you, Mr. Chairman.

Chairman PICKLE. Give our regards to Mr. Goldberg.

[Additional questions submitted to the IRS and their responses follow:]

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

DEPUTY COMMISSIONER

DEC 13 1990

RECEIVED
JAN 2 1991
Ways and Means
Subcommittee on Oversight

The Honorable J.J. Pickle
Chairman, Subcommittee on Oversight
Ways and Means Committee
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Enclosed are the responses to the nine questions posed in your October 2, 1990 letter seeking additional information for the record for the September 20, 1990 Subcommittee hearing on money laundering.

Should you have any questions please contact Gayle Morin on 566-4071.

Sincerely,

Michael J. Murphy

Enclosures

P.S. Mr. Chairman, thanks for raising the level of interest in this important program.
Mike

Question 1.

What is IRS's strategy for enforcement of Section 6050I?

The IRS strategy to improve compliance with the section 6050I reporting requirements is being developed by drawing from district experiences to develop better methods of educating businesses, conducting civil compliance checks, and coordinating publicity of criminal convictions. There will also be improved methods of tracking IRS accomplishments in both civil and criminal cases. We have established a cross functional group to prepare the details of this strategy and an implementing plan. The group will have recommendations and implementing plans by the end of 1990.

Question 2.

What are the procedures and standards for referral of potential criminal cases for violation of section 6050I to the IRS Criminal Investigation by other functions of IRS?

The procedures and standards for referral of violations of section 6050I having potential for criminal prosecution are outlined in IRM 4234 section 733 (copy attached).

731 *(12-8-89)* 4234
General

(1) During an examination, if it is determined that the taxpayer failed to file Form(s) 8300, or furnish a statement(s) as required, the delinquency procedures in IRM 4562.5 will be followed.

(2) Briefly, the delinquency procedures in IRM 4562.5 require that the examiner:

(a) Secure any delinquent Forms 8300 and/or statements and forward the originals to the Detroit Computing Center, P.O. Box 32621, Detroit, MI 48232.

(b) Determine if the failure to file was due to reasonable cause; if the failure to file was due to reasonable cause the penalties imposed by IRC 6721 through 6723 will not apply.

(c) Secure a written statement from the taxpayer, under penalties of perjury, setting forth all the facts alleged as reasonable cause.

(d) Place a photocopy of the delinquent Form 8300 and/or statement in a Penalty Case File, if the failure to file was not due to reasonable cause.

(e) Compute the penalty under IRC 6721 through 6723 on Form 8278, Computation and Assessment of Miscellaneous Penalties, as provided in IRM 4560.

(f) Attach Form 3198, Special Handling Notice, to the penalty case file.

732 *(12-22-86)* 4234
Attorney-Client Privilege

(1) IRC 6050I and the temporary regulations do not exempt attorneys from the reporting requirements of Section 6050I. Information by an attorney on Form 8300 concerning the identity of a client and the amount of cash received is usually not privileged because, absent special circumstances, such information does not involve a confidential communication. This is especially true with respect to the amount of legal fees paid by the client to the attorney for services rendered. Therefore, in the case of an attorney who asserts the "attorney-client privilege," the examiner should consider issuing a summons to the attorney following the guidelines in IRM 4022 in order to obtain the specific information omitted by the attorney by virture of the assertion of the attorney–client privilege.

(2) Issuance of an administrative summons under IRC 7602 may be appropriate where the examiner is seeking to determine the amount of penalties for which an attorney may be liable by virtue of the attorney's improper:

(a) filing of numerous Forms 8300 asserting the "attorney-client privilege"; or

(b) claiming that privilege as "reasonable cause" for the failure to file required Forms 8300.

(3) Further, a "dual purpose" summons issued to determine both the amount of penalties for which the attorney is liable as well as the client(s)' income tax liabilities may be properly supportable in such circumstances. Se: *Tiffany Fine Arts, Inc. v. United States, 105 S. Ct. 725 (1985).*

(4) A "John Doe" summons may also be appropriate in order to obtain information on an attorney's client(s) where the Form(s) 8300 filed by the attorney contain(s) an assertion of the "attorney-client privilege" provided that the "reasonable basis" test of IRC 7609(f)(2) can be satisfied. Something more than demonstrating the mere existence of the large amount of cash involved in an IRC 6050I transaction may be required to be shown in order to satisfy the reasonable basis test of IRC 7609(f). See: *In the Matter of the Tax Liabilities of John Does, Members of the Columbus Trade Exchange in the Years 1977 and 1978, 671 F. 2nd 977 (6th Cir. 1982).*

(5) An alternative method to obtain information required to be filed with the Service under IRC 6050I is to seek an injunction against the attorney under IRC 7402(a). See: *United States v. Carley, 57 AFTR 2d, par. 86-922 (2d Cir. 1986).*

733 *(12-22-86)* 4234
Referrals to Criminal Investigation

(1) Examiners should refer cases to Criminal Investigation Division (CID) of any person engaged in a trade or business, (including responsible officers or employees of the business) who had sufficient notice of the filing requirements of Form 8300, but who *willfully*, thereafter, failed to file the form on numerous occasions, or who filed a Form 8300 which is false with regard to a material matter.

(2) The determination of *willfulness* with respect to possible criminal violations of the reporting requirements under IRC 6050I should be made on a case by case basis.

(3) In general, examiners should follow the procedures in IRM 4565, General Fraud Procedures, without regard to any dollar criteria as set forth in 565 of the Law Enforcement Manual IV,

when referring IRC 6050I cases to Criminal Investigation.

734 *(12–8–89)* 4234

Additional Procedures for Field Examiners

(1) In addition to the package audit requirements for Form 8300 (text 710), field examiners will verify in all examinations whether the taxpayer filed correctly or was required to file:

(a) Form 3520, Creation of or Transfers to Certain Foreign Trusts—Information Return, pursuant to IRC 6048.

(b) Form 3520A, Annual Return of Foreign Trust With U.S. Beneficiaries—Information Return, pursuant to IRC 6048(c).

(c) Form 926, Return by a transferor of Property to a Foreign Corporation, Foreign Trust or Estate, or Foreign Partnership—Excise Tax Return, pursuant to IRC 1491, asserting a 35% excise tax on certain transfers.

(2) Field examiners should, as a minimum, compare filed Form(s) 3520, 3520A, 926 and 90–22.1 (FBAR) to the tax return to identify potential noncompliance or tax avoidance issues. Although Form 90–22.1 is not filed with the tax return, the taxpayer's copy (if available) should be utilized for this analysis.

(3) During an examination, if it is determined that a taxpayer was required to file Form 90–22.1 (FBAR) but failed to do so, the examiner will secure the delinquent form from the taxpayer. The original delinquent Form 90–22.1 should be sent to the Detroit Computing Center, P.O. Box 32621, Detroit, MI 48232, Attn: FBAR. If the taxpayer refuses to file a delinquent Form 90–22.1, a referral should be made to the district CBRC, following the procedures in text 742.

(4) In all field cases, examiners will include in Form 4318, Examination Workpapers, a statement as to his/her findings concerning the provisions of this section, and the package audit requirements for Form 8300. Quality Review Staff will ensure that such a statement is included in all cases it reviews. The regions will monitor and ensure adherence to these provisions during regular district program visitations.

(5) Field examiners will find IRM 4235, Techniques Handbook for In-Depth Examinations, text 7(16)0 and 7(17)0, replete with instructions to assist them in identifying and uncovering areas of noncompliance and unreported income, with equal attention given to both foreign and domestic transactions by taxpayers.

740 *(12–8–89)* 4234

Referrals to Currency and Banking Reports Coordinator (CBRC)

(1) Examiners should not solicit the currency reports required to be filed under Title 31 (text 231), except Form 90–22.1 (FBAR), from a taxpayer during an income tax examination. Form 90–22.1 may be solicited from the taxpayer for purposes of satisfying the procedures in text 710:(7) and 740. Examiners, however, can determine on a sample basis whether the taxpayer under examination has filed the appropriate currency reports through the use of CBRS.

(2) In addition, examiners should not examine books and records of the taxpayer for purposes of determining if the taxpayer is complying with the recordkeeping provisions of Title 31. Examiners may, however, request and examine any of these records which are relevant to the income tax examination of the taxpayer.

(3) It is imperative that examiners keep income tax examinations (Title 26) separate and distinct from Title 31 compliance checks. The provisions of IRC 6103 restrict disclosure of Title 31 violations discovered during an income tax examination to another government agency, including Treasury. Consequently, proper referral procedures for possible Title 31 violations must be followed.

(4) Form 5103 (Examiner's Check Sheet) should be prepared and forwarded to the district CBRC, whenever an examiner detects a possible violation of the Title 31 reporting or recordkeeping requirements by financial institutions under the Service's jurisdiction (text 252).

(5) Form 5104, Report of Apparent Violation of Financial Recordkeeping and Reporting Regulations, should be prepared and forwarded to the district CBRC whenever examiners detect a violation by a financial institution not under the Service's jurisdiction (text 251). In addition, Form 5104 will be used to report taxpayers who failed to file or filed a false Form 90–22.1 (FBAR).

(6) The examiner's workpapers may be attached to Form 5104 if the district believes the workpapers will support or explain the examiner's findings and conclusions. All workpapers and any other documents attached to Form 5104 must be neat, legible, and concise.

Question 3.

What are the procedures and standards for referral of criminal cases for violation of section 6050I from IRS to the Department of Justice?

Criminal cases involving Form 8300 filing requirements under IRC Section 6050I can be referred to the Department of Justice for prosecution in the following two ways:

1. For Title 26 violations involving the failure to file Form 8300 (26 USC 7203), filing a false Form 8300 (26 USC 7206(1)), and aiding in the filing of a false Form 8300 (26 USC 7206(2)); IRS Criminal Investigation has the prosecution recommendation reviewed by IRS District Counsel who may then refer the case directly to the United States Attorney's Office for criminal proceedings. (See attached IRM section 9631.4(6))

2. If the 6050I violation is connected to a specified unlawful activity (ie. narcotics proceeds); the violation can be prosecuted under the provisions of Title 18 USC 1956 (Money Laundering). The Chief, Criminal Investigation can refer this case directly to the United States Attorney's Office for prosecution. (See attached IRM section 9625.14(2))

9631.4 *(6–2–87)*
Processing with District Counsel and Statute Cases

(1) Reports containing recommendations for criminal prosecution, if approved by the Chief, should be forwarded to District Counsel not less than 310 days prior to the expiration of the period of limitations as to the first alleged offense, from the standpoint of time, included in the recommendation of prosecution, in the absence of exceptional circumstances. If exceptional circumstances exist that would act to waive this rule, they shall be detailed in the memorandum transmitting the case to District Counsel. Such factors as the importance of the case and late discovery of strong evidence of flagrancy should be weighed with the desirability of an even flow of cases and sufficient review time for District Counsel and Department of Justice. The determination as to whether such circumstances are of an exceptional nature must be a matter of judgment on a case-by-case basis. Also, consideration should be given in each such case to dropping, for prosecution purposes, the tax period or possible count about to be beyond the limitation period, unless it is vital to successful prosecution. The fact that the statutory period about to terminate involves a tax year considered vital to the prosecution recommendation shall be interpreted as an exceptional circumstance to waive the rule.

(2) When District Counsel concurs with recommendation of prosecution, in accordance with the procedure of the Chief Counsel's office, District Counsel will forward to the Chief two copies of the criminal reference letter prepared by his/her office. The Chief shall retain one copy for his/her files. The ARC may, at his/her discretion, require that a copy be forwarded to his/her office by the Chief. Cases are sometimes processed by Chief Counsel when a particular District Counsel has a heavy case load or for other administrative reasons. When this procedure is followed, the distribution to the Criminal Investigation function will be the same.

(3) As provided in IRM 9357, District Counsel will ordinarily discuss any defenses raised by the taxpayer at the formal conference with the special agent prior to requesting a supplemental investigation. The ARC may, at his/her discretion, require that a copy of District Counsel's request for supplemental information or data be forwarded to his/her office by the Chief. Supplemental reports and reports of supplemental investigation will be processed in the same manner as original reports. District Counsel will retain the Administrative File for ninety days following transmittal of a Request for Supplemental Investigation by Criminal Investigation personnel. During this time, District Counsel is responsible for control of civil matters. In the event the request cannot be accomplished within this time, the Administrative File may be returned to the appropriate District Director for control of civil matters deemed necessary by that official.

(4) If District Counsel determines that a Special Agent's Report is incomplete to the extent that additional investigative activity involving a massive supplemental request is required, the case may be returned to the Chief, Criminal Investigation Division, accompanied by a Declination Memorandum. The district then has ten workdays to decide whether or not the additional investigative activity required to perfect the SAR is warranted. If a decision is made to complete the necessary work and resubmit the SAR to District Counsel, the matter will be treated like any other supplemental. If it is determined that the additional work required by District Counsel is not warranted, the matter will be treated like other District Counsel declinations. (See IRM 9570, Exhibit 400–1 for Case Management and Time Reporting System reporting requirements).

(5) If District Counsel does not concur with recommendation for prosecution in a case, he/she will confer with the Chief, Criminal Investigation Division, in an effort to resolve the differences of opinion. If after the conference District Counsel still does not concur with the prosecution recommendation, District Counsel will prepare a Declination Memorandum, transmit it to the Chief and send a copy to the ARC.

(6) District Counsel will ordinarily forward prosecution cases to the Tax Division of the Department of Justice. However, District Counsel may refer the following types of cases direct to the U.S. Attorney: certain violations relating to Form 8300 (Report of Cash Payment Over $10,000 Received in a Trade or Business); trust fund penalty cases; corrupt or forcible interference cases; forcible rescue cases; excise tax cases and cases involving violations of 18 USC 1621, 1622, or 1623 which were committed in contravention of the internal revenue laws, were committed during the judicial process (before the grand jury or trial jury), and involve a prosecution recommendation solely under those sections.

(7) When a case is forwarded to District Counsel for review and referral direct to the U.S. Attorney, the Chief should furnish the original and four copies of the special agent's report to District Counsel, so that District Counsel may send two copies to the Department of Justice.

9631.5 *(3-16-83)*
District's Reply to Declination Memorandum

(1) Within ten workdays from the date of the Declination Memorandum, the Chief, Criminal Investigation Division, will submit to the ARC(CI), a protest report signed by the District Director or his/her designee, but no lower than the Chief, CID setting forth the district's disagreement with the Declination Memorandum; or a memorandum of notification that the district will protest the Declination Memorandum, to be followed promptly by the protest report.

(2) The protest report will include any comments concerning overall evaluation of the evidence, interpretation of law, or other disagreements with opinions expressed in the Declination Memorandum. Any new or additional facts or evidence developed after receipt of the Declination Memorandum will be included in a separate report signed by the special agent, and submitted with the district's protest report. Such reports by the special agent should be limited to a presentation of the facts and should not contain opinions relating to action proposed by District Counsel.

(3) A copy of the district's protest report (and notification, if applicable) will be forwarded to District Counsel. When the District's protest report includes a separate report signed by the special agent reflecting new or additional facts or evidence developed after receipt of the Declination Memorandum, a copy of the special agent's report will also be forwarded to District Counsel.

(4) If District Counsel does not receive the district's protest report or notification within the time limit prescribed above, District Counsel may assume that the Declination Memorandum will not be protested and consider the matter closed.

9631.6 *(3-16-83)*
Consents and Statutory Notices on Prosecution Cases in District Counsel

District Counsel may request that consents extending the statutory period of limitation on assessment be obtained by the Chief, Examination Division, in the district, with respect to criminal prosecution cases where the administrative file has been delivered to the office of the District Counsel. Where timely consents are received, they will be accepted by or on behalf of the District Director and forwarded to the District Counsel who will satisfy himself/herself that the signature on the consent corresponds with the signature on the return. In the event consents are not timely filed and the District Counsel has not indicated that the statutory notice of deficiency should be issued, the Chief, Examination Division, will notify the District Counsel that the requested consents were not received. Where consents are not timely filed and the District Counsel has indicated that the statutory notice of deficiency should be issued, the tax return and any other part of the administrative file considered necessary to properly prepare the statutory notice will be obtained from the District Counsel by the Chief, Examination Division. Pattern letter P-256 (Exhibit 9320-6 provided in IRM 9325.2:(8)) shall be used in lieu of Form L-21 in these cases.

9631.7 *(3-16-83)*
Follow-up on Pre-Indictment Cases Pending with U.S. Attorney

(1) The Chief, Criminal Investigation Division will assure that periodic follow-up contacts are made on all pre-indictment cases pending in the Unites States Attorney's Office over six months. Contacts may be made as often as the Chief deems appropriate but at least every six months.

9623 *(3-16-83)*
Authority for Final Decisions in Completed Investigations

(1) The Chief, as the representative of the District Director, renders the final decision for Criminal Investigation as to the disposition of cases in the district.

(2) The Chief also renders final decision for the district Criminal Investigation Division regarding the assertion of civil penalties in completed investigations.

9624 *(3-1-90)*
Cases Forwarded to District Counsel

Except as provided in IRM 9625, the Chief shall forward to the District Counsel for review all cases in which a recommendation for prosecution has been made by the special agent and approved by the Chief. See IRM 9631.2.

9625 *(2-4-81)*
Direct Referrals

9625.1 *(2-4-81)*
Direct Referrals to U.S. Attorney

9625.11 *(3-16-83)*
Direct Referral of Arrest Cases to U.S. Attorney

Cases involving arrests by special agents will ordinarily be forwarded direct to the United States Attorney by the Chief, Criminal Investigation Division (CID). This includes race track "ten percenter" cases in which prosecution is recommended under IRC 7206(2) or 18 USC 371. However, if prosecution in "ten percenter" cases is recommended under a provision other than IRC 7206(2) or 18 USC371, the entire case file should be referred through established channels for evaluation and review by District Counsel and the Department of Justice, even when there has been an arrest.

9625.12 *(10-4-90)*
(Reserved)

9625.13 *(9-2-83)*
Violations of Title 31 and Related Title 18 Offenses

(1) Reports recommending prosecution for violation of Title 31 and related Title 18 offenses are to be referred directly from the Chief, Criminal Investigation Division to the United States Attorney or Strike Force Attorney. However, if prosecution is also being recommended on tax charges, then ordinary review channels are to be used. (See text 560 of IRM 9781, Handbook for Special Agents, and IRM 9630.)

(2) Also, if violations of Title 26 are used to elevate a Title 31 violation to a felony under 31 USC 5322(b), then ordinary review channels prescribed in IRM 9630 must be used, even if no tax charge is recommended.

9625.14 *(7-31-90)*
Direct Referral of Title 18 U.S.C. 1956 and 1957 Cases to U.S. Attorney

(1) Title 18 U.S.C. 1956 and 1957 cases are intended to facilitate and enhance the prosecution of money launderers. They are not intended to provide a substitute for traditional Title 18 and Title 26 charges related to tax evasion, filing of false returns, including the aiding and abetting thereof, or tax fraud conspiracy. Consequently, appropriate tax-related Title 18 and Title 26 charges are to be utilized when the evidence warrants their use.

(2) Reports recommending prosecution for violation of 18 U.S.C. 1956 or 1957 offenses are to be referred directly from the Chief, Criminal Investigation Division, to the United States Attorney *Except if:*

(a) The indictment *also* contains charges for which Department of Justice, Tax Division, authorization is required (i.e. a substantive tax violation or a tax fraud conspiracy); or

(b) When the intent to engage in conduct constituting a violation of 26 U.S.C. 7201 or 7206 is the *sole or principal purpose* of the financial transaction which is the subject of the money laundering count

(3) If either (a) or (b) is present, then ordinary review channels are to be used (see text 560 of IRM 9781, Handbook for Special Agents, and IRM 9630.

(4) It is assumed that when a direct referral is made the following is true:

(a) the principal purpose of the financial transaction was to accomplish *some other* covered purpose, such as carrying on some specified unlawful activity like drug trafficking;

(b) the circumstances *do not warrant* the filing of substantive tax or tax fraud conspiracy charges; and

(c) the existence of a *secondary* tax evasion or false return motivation for the transaction is one that is readily apparent from the nature of the money laundering transaction itself.

(5) When direct referral is appropriate, consultation with Counsel prior to such referral is encouraged.

9625.2 *(1–8–87)*
Direct Referrals to Justice

(1) False W–4 Cases

(a) Cases involving false withholding allowance certificates (Forms W–4) that meet the criteria in (c) below may be referred direct to the Department of Justice Tax Division by the Chief, Criminal Investigation Division (CID). Such cases should be addressed as follows:

Stanley F. Krysa
Tax Division
Chief, Criminal Section
10th and Pennsylvania Avenue
Department of Justice
Washington, D.C. 20530

(b) However, where a substantial or unusual legal or procedural question is involved, these cases should be forwarded through regular channels. Likewise, unless time is of the essence, the Chief may forward any or all of these cases through regular channels to obtain the benefit of a review by District Counsel.

(c) Direct referrals of these cases will be made only where there is a particular serious current compliance problem of filing false Forms W–4 by a clearly defined category of employees. In addition, each case must meet the following criteria:

1 the alleged fraudulent Form W–4 was filed during the then current tax year; (The currrent tax year is defined as the period up to the time the next tax return is filed or required to be filed, whichever occurs first. For example, a calendar year taxpayer filing a Form W–4 at any time during the calendar year, the case may be forwarded direct to the Department of Justice Tax Division prior to the filing of the return for that year or prior to April 15th whichever occurs first) *and*

2 the individual filing the false certificate has not already committed other tax violations, such as failing to file required tax returns; *and*

3 a so-called church issue or "vow of poverty" issue is not present in the case.

(d) If the case does not meet all of the criteria listed above, it will be forwarded through regular channels to obtain the benefit of review by District Counsel. In applying the criteria listed above, a prima facie violation of the law that occurred prior to the filing of the false Form W–4, regardless of the prosecution potential, requires referral of the false Form W–4 case to District Counsel. Likewise, the mere existence of the church or vow-of-poverty issue, regardless of the viability of such a defense, requires referral of the Form W–4 case to District Counsel.

9625.3 *(7–3–87)*
Processing Direct Referral Reports

(1) When the Chief determines that a case should be a direct referral to the U.S. Attorney under the guidelines in IRM 9625.1, he/she will forward the original of the special agent's final report and exhibits directly to the appropriate United States Attorney. Transmittal will be by memorandum, which should include a request that the report and exhibits be returned to the Chief upon disposition of the criminal features of the case. In addition, the memorandum will contain a statement that, in accordance with the policy of the Tax Division, Department of Justice, the case should not be brought under the Pretrial Diversion Program. This statement is not required on direct referrals of pure Title 31 and related Title 18 offenses. Copies of pertinent documents will be distributed as follows:

(a) to ARC(CI)—one copy of the special agent's report. (if required by ARC)

(b) to Chief, Criminal Investigation Division:

1 one copy of the special agent's report and

2 one copy of the transmittal memorandum

(c) To Stanley F. Krysa, Tax Division, Chief, Criminal Section, 10th and Pennsylvania Avenue, Department of Justice, Washington, D.C. 20530 in cases falling under the jurisdiction of the Tax Division:

1 two copies of the special agent's report; and

2 two copies of the transmittal memorandum.

(d) If the case falls under the jurisdiction of the Criminal Division, no copies of the special agent's report or the transmittal memorandum will be forwarded to the Department of Justice. The Criminal Division has general responsibility over the following offenses investigated by the Criminal Investigation Division: wagering and coin-operated gaming device cases; forcible rescue of seized property (26 USC 7212(b)) and

Question 4.

To date, how many penalties have been assessed by IRS for violation of section 6050I? What was the total amount of those penalties?

At present, penalty assessments relating to section 6050I are not differentiated from penalties assessed on other information returns. Consequently, there are no figures to show the number or amount of penalties assessed by IRS for section 6050I violations. However, Western Region has been manually tracking these penalties. Their records indicate that since 1987, at least 757 penalties have been asserted with assessments of $840,499.

Question 5.

To date, how many penalties have been collected by IRS for violation of section 6050I? What was the total amount collected for those penalties?

Our existing data processing system does not permit identifying the amounts collected for this or any other penalty.

Question 6.

What efforts has the IRS made to educate the business community regarding section 6050I? (In addition to describing IRS national efforts, please break this down by IRS district.)

Information has been provided in publications, news releases and outreach programs. In addition, 31 Districts have undertaken the following efforts:

1. Detroit District
   In June, 1989, 593 merchants were contacted by Criminal Investigation personnel and handed copies of the law, forms, and a poster. A certificate of contact was then prepared by the contacting agent and this information was entered into a database. The contacts included auto, boat, and aircraft dealers, jewelers, furriers, motor home and recreational vehicle dealers, bonding and real estate agents.

2. Louisville District
   A joint Criminal Investigation and Examination compliance check is planned for the week of November 12, 1990. They have targeted auto, boat, and coin dealers in the State of Kentucky as well as farm implement dealers, jewelry stores and pawn shops. Specific merchants will be personally contacted and given notice of the section 6050I requirements.

Question 6. (continued)

3. Cleveland District
Criminal Investigation mailed several hundred circulars to car dealers, boat brokers, and jewelers. A joint Criminal Investigation and Examination compliance effort has been ongoing. Details of specific contacts are entered into a District database.

4. Indianapolis District
In August, 1989, the Chief, Criminal Investigation held a news conference with the major television and radio stations to explain the Form 8300 filing requirements. In addition, over 1000 certified letters were sent to area businesses explaining the reporting requirements. These records of contact are maintained by the Chief, Criminal Investigation and the Public Affairs Office.

5. Parkersburg District
Criminal Investigation and Public Affairs sent out over 250 mailings to West Virginia businesses explaining the Form 8300 reporting requirements.

6. Austin District
Criminal Investigation sent out several hundred notices to local businesses explaining the filing requirements of Form 8300.

7. Dallas District
Presentations regarding the Form 8300 filing requirements have been made to banking associations, auto dealer trade associations, and Bar and Accounting organizations.

8. Denver District
5000 letters were mailed to businesses that were identified through state sales tax documents. 1023 letters were sent to car and coin dealers in Wyoming and 140 letters to car and coin dealers in Utah.

9. Houston District
The District has initiated a series of mailings, articles in trade magazines, personal notifications, and presentations at trade shows and professional development meetings.

10. Phoenix District & Wichita
15,000 notices have been mailed to businesses explaining the section 6050I requirements.

11. Ogden Service Center
Published the 8300 filing requirements in their tax practitioners newsletter which has a circulation of 43,000 subscribers covering 14 states.

12. Austin Compliance Center
Mailed information concerning the preparation and filing of Forms 8300 to 105,000 entities in the Southwest Region.

13. Birmingham District
A cross functional compliance-project resulted in notifications of Form 8300 requirements to 170 auto dealers and 450 real estate agents.

Question 6. (continued)

14. Fort Lauderdale District
A joint project by Criminal Investigation, U.S. Customs, and DEA hand delivered notices regarding Forms 8300, CTRs, and CMIRs to 80 precious metals dealers in South Florida. The District issued press releases and management officials were interviewed on local television stations regarding the Form 8300 requirement. The District has targeted over 1200 auto, boat, and aircraft dealers for compliance checks.

15. Greensboro District
Criminal Investigation agents have visited 125 car dealers to promote awareness of the Form 8300 filing requirements. November 7-8, 1990, Criminal Investigation and state agents from North Carolina will visit 300 targeted businesses in the state for Form 8300 awareness. Daily news releases will be issued to local newspapers announcing the compliance checks.

16. Jacksonville District
News releases were carried in 13 different daily publications regarding Form 8300 requirements and pending compliance checks. Two newspapers ran four articles about this project. The "Automobile News", a nationwide publication carried articles regarding Form 8300 requirements and compliance.

17. Nashville District
Criminal Investigation has contacted 80 automobile dealers, 11 jewelry stores, 3 aircraft dealerships, 3 real estate firms, 2 stock brokers, and 2 attorneys who supplied signed acknowledgments of the Form 8300 requirements. A presentation was also made to the Middle Tennessee Real Estate Association and an article was published in the Tennessee Bar Association Newsletter concerning Form 8300 filing requirements.

18. New Orleans District
Two mass mailouts were sent with employment tax forms from the Service Center to all businesses of record in the District.

19. Boston District
Prepared a mass mailing to nine types of business entities that deal in cash.

20. Buffalo District
Public Affairs and the Chief, Criminal Investigation have both received media coverage regarding the section 6050I requirements. The Public Affairs Officer has contributed Form 8300 related articles to area newspapers.

21. Burlington District
Criminal Investigation has initiated mailings to trade and business groups in their area.

22. Baltimore District
In 1988, 1700 letters were sent to attorneys, boat dealers, and property brokers explaining the reporting requirements under section 6050I. Articles have been placed in trade journals and presentations have been made to trade associations about the Form 8300.

Question 6. (continued)

23. Newark District
The Chief, Criminal Investigation has participated in TEI and CPA Society seminars and a Form 8300 article was recently published in the local law journal. One of the Criminal Investgation Branch Chiefs addressed the New Jersey Bar Association regarding the Form 8300 issue.

24. Philadelphia District
The local Chamber of Commerce has been advised of section 6050I presentations that have been given to local business organizations.

25. Pittsburgh District
A copy of Form 8300 and publication MAR 57 was circulated to 10,000 trades and businesses. Documentation of the notification is input into a database which will later be used to confirm a taxpayers knowledge of the reporting requirement.

26. Richmond District
Some 6500 letters and brochures were sent out to various businesses. The State of Virginia provided a state tax listing which was used to identify the businesses. A computer list of businesses receiving notice is kept by Criminal Investigation. The City of Roanoke has provided a flier on Forms 8300 to all applicants for a city business license.

27. Honolulu District
3400 letters have been sent to primary businesses having a high potential for cash transactions. Contacts have also been made with trade associations and groups within the cash industries.

28. Portland District
In 1986, Criminal Investigation sent out a mass mailing to businesses informing them of the Form 8300 filing requirements. A computerized list is maintained of those who were sent notices.

29. Los Angeles District
Trade associations affiliated with cash type industries have been used as a means of notifying local businesses. 6050I notification letters were sent to all trade members and a database maintained to track the notices.

30. Seattle District
Over 3000 mailings have been sent to cash type businesses.

31. Milwaukee District
A joint mass mailing was sent out by Criminal Investigation and Examination to area car dealers.

32. Missouri District
District personnel have made presentations to Chamber of Commerce groups regarding Form 8300 awareness.

33. St. Paul District
41,000 letters have been sent to attorneys, real estate brokers, gold and silver dealers, jewelers, auto, boat, airplane and implement dealers. Major coverage by local newspapers regarding the Form 8300 filing requirements has also been effected.

Question 7.

Regarding the 131 businesses examined by IRS in Birmingham, Alabama, in August, 1990, please provide detailed information about the industries involved, the number and types of violations involved, the type and amount of any penalties levied, and any other information descriptive of IRS's findings.

The 131 compliance checks were performed on automobile, boat and jewelry dealers. There were 52 taxpayers in full compliance. 134 returns were secured from 79 delinquent taxpayers with $18,477 in proposed penalties. There were four cases where the intentional disregard penalty was asserted.

Question 8.

Please explain block by block, why IRS requires the information requested on the Form 8300.

The current version of Form 8300, a copy of which is attached, mirrors the current version of Form 4789 (Currency Transaction Report) in many respects. The parts of the forms require the following information:

Form 8300	Form 4789
-Identity of the individual paying the cash	-Identity of the individual conducting the transaction
-Person on whose behalf the transaction was conducted	-Person on whose behalf the transaction was conducted
-Description of transaction	-Type of transaction
-Business reporting the transaction	-Institution reporting the transaction

Information from both Forms 8300 and 4789 are included in the same IRS/Treasury data bank. Similar formatting of the two forms facilitates incorporation of the information into the data base and improves the ease of use by IRS and law enforcement personnel. This is particularly true when matching cash deposits by businesses with Forms 8300 filed by businesses or when matching reports of purchases with cash withdrawls.

The following is a block by block explanation of the Form 8300:

Block #1 - The information is used for processing purposes at the Internal Revenue Service Detroit Computing Center (DCC). Checking box "A" signifies that an earlier report has been filed on the same transaction and that the report modifies the prior report. Checking box "B" alerts IRS that the business filing the report subjectively considered the transaction "suspicious" and the transaction should be given closer scrutiny. This block is very similar to block 1 on Form 4789.

Question 8. (continued)

Block #2 - The checking of this box alerts IRS that Part I identifying information needs to be input on more than one individual. This block is identical to block 2 of Form 4789.

Blocks #3, 4 and 5 - The name of the payor of the cash. The name is basic identifying data.

Block #6 - The payor's social security number is included since social security numbers are important in identifying individuals. A great deal of information is maintained by social security number by agencies other than IRS.

Blocks #7, 9, 10, 11 and 12 - The full address of the payor goes here.

Block #8 - This is an indicator of the legitimacy of the transaction. When an individual maintains that he or she is a student or unemployed, yet deals in cash in excess of $10,000, the transaction is rather suspicious.

Block #13 - The date of birth of the payor is included here. Date of birth helps assure more positive identification and is used in almost all law enforcement data banks on criminal suspects throughout the country. Date of birth is included on Form 4789.

Block #14 - The payor must produce some type of documentation to verify the information requested in blocks 3 through 13. Verification is needed to avoid the misidentification (through fraud or mistake) of the payor. The format is identical to block #15 of Form 4789.

Block #15 - The checking of this box alerts IRS that part II identifying information needs to be input on more than one person. This corresponds with block 16 of Form 4789.

Block #16 - Whether the person on whose behalf the transaction is conducted is an individual or an organization aids in processing the report.

Block #17 - This block attempts to identify the ultimate source of the currency, if neither the payor (Part I) nor the person on whose behalf the transaction is being conducted is the source. This could happen, for example, if a grandparent gave her child $15,000 cash to purchase on automobile for her grandchild's birthday, the automobile dealer, in filing the Form 8300, would provide information on the child in Part I, on the grandchild in Part II (except block 17) and the grandparent in block 17. This presents a "complete picture" of what occurred and who was involved.

Blocks #18, 19, 20 and 21 - These blocks identify the person and/or organization on whose behalf the transaction was conducted by name and social security and/or employer identification number.

Block #22 - If a person is an alien who does not have a social security number, this block must be completed. The information that would go here would come from an official document, such as a passport. If the document is a passport, block "A" would state "passport". Block "B" would state the country issuing the passport, and block "C" would state the passport number. The format mirrors block 23 of Form 4789.

Block #24 - As with block 8, block 24 helps indicate the legitimacy of the transaction. Many occupations are inconsistent with large cash transactions.

Question 8. (continued)

Blocks #23, 25, 26, 27 and 28 - The address of the person on whose behalf the transaction is conducted.

Block #29 - As with block 13, date of birth provides more positive identification, and is important information for law enforcement purposes.

Block #30 - Nine boxes (A through I) are provided to permit a general categorization of the type of transaction being reported.

Block #31 - This block provides a more deatiled description of the property and/or services being purchased.

Block #32 - The total price of the goods or services in the transaction. This information is especially useful in tracking cash payments on installment sales, and serves as an indicator as to whether additional Forms 8300 might be filed on the same transaction.

Block #33 - The amount of cash that the payor tendered to the trade or business filing the report.

Block #34 - The denomination of the cash used is important for law enforcement purposes. For example, non $100 bills are typically the street denomination for narcotics sales.

Block #35 - This information pertains to installment sales. The information is useful in tracking a series of cash payments over a period of time, all relating to the same transaction.

Block #36 - The date of the transaction.

Block #37 - The acceptance by a business of large amounts of foreign currency for goods or services could be very suspicious depending on the type of business and its location..

Blocks #38, 39, 40, 41, 42 and 43 - The basic identifying information of the business filing the report, the business's name, address, and social security and/or employer identification number.

Block #44 - The nature of the business is an indicator of whether large cash transaction are normal for the business.

Block #45 - An authorized individual signs the report under penalty of perjury in this block. The date of the signature and title of the signing official must be furnished. Also, a telephone number must be indicated, so that the preparer of the report may be quickly contacted to supply additional, corrected and/or clarifying information. All of this information is similarly requested in Part V of Form 4789.

Form **8300**
(Rev. January 1990)
Department of the Treasury
Internal Revenue Service

Report of Cash Payments Over $10,000 Received in a Trade or Business

Failure to file this form or filing a false form may result in imprisonment.
▶ See instructions on back.
Please type or print.

OMB No. 1545-0892
Expires: 10-31-92

1 Check appropriate boxes if: a ☐ amends prior report; b ☐ suspicious transaction.

Part I Identity of Individual From Whom the Cash Was Received

2 If more than one individual is involved, see instructions and check here . . . . ▶ ☐

3 Last name	4 First name	5 Middle initial	6 Social security number

7 Address (number and street)	8 Occupation, profession, or business

9 City	10 State	11 ZIP code	12 Country (if not U.S.)	13 Date of birth (see instructions)

14 Method used to verify identity: a Describe identification ▶
b Issued by c Number

Part II Person (See Definitions) on Whose Behalf This Transaction Was Conducted

15 If this transaction was conducted on behalf of more than one person, see instructions and check here . . . . ▶ ☐

16 This person is an: ☐ individual or ☐ organization | 17 If funded by another party, see instructions and check here . . ▶ ☐

18 Individual's last name or Organization's name	19 First name	20 Middle initial	21 Social security number

22 Alien identification: a Describe identification ▶
b Issued by c Number
Employer identification number

23 Address (number and street)	24 Occupation, profession, or business

25 City	26 State	27 ZIP code	28 Country (if not U.S.)	29 Date of birth (see instructions)

Part III Description of Transaction and Method of Payment

30a ☐ personal property purchased
b ☐ real property purchased
c ☐ personal services provided
d ☐ business services provided
e ☐ intangible property purchased
f ☐ debt obligations paid
g ☐ exchange of cash
h ☐ escrow or trust funds
i ☐ other (specify) ▶

31 Specific description of property or service purchased. Give serial or registration number of car, boat, airplane, etc., address of real estate, etc.

32 Total price $ .00	33 Amount of cash received $ .00	34 Amount in $100 bills or larger $ .00

35 If part of an installment sale, give information below and check box . . . . ▶ ☐
a Number of payments
b Amount of each payment $ .00
c Frequency: ☐ monthly ☐ other (describe)
d Balloon payment (amount) $ .00

36 Date of transaction

37 ☐ Paid with U.S. currency ☐ Paid with foreign currency (country) Amount (U.S. dollar equivalent) $ .00

Part IV Business Reporting This Transaction

38 Name of reporting business	39 Employer identification number
40 Street address where transaction occurred	Social security number

41 City	42 State	43 ZIP code	44 Nature of your business

45 Under penalties of perjury, I declare that to the best of my knowledge the information I have furnished above is true, correct, and complete.

Sign Here

(Authorized signature–See Instructions) (Title) (Date signed) (Telephone number)

Paperwork Reduction Act Notice.—The requested information is useful in criminal, tax, and regulatory investigations, for instance by directing the Federal Government's attention to unusual or questionable transactions. Trades or businesses are required to provide the information under 26 U.S.C. 6050I.

The time needed to complete this form will vary depending on individual circumstances. The estimated average time is 18 minutes. If you have comments concerning the accuracy of this time estimate or suggestions for making this form more simple, you can write to the **Internal Revenue Service,** Washington, DC 20224, Attention: IRS Reports Clearance Officer T:FP; or the **Office of Management and Budget,** Paperwork Reduction Project (1545-0892), Washington, DC 20503.

General Instructions

Who Must File.—Each person engaged in a trade or business who, in the course of such trade or business, receives more than $10,000 in cash in one transaction or two or more related transactions must file Form 8300. Any transactions conducted between a payer (or its agent) and the recipient in a 24-hour period are related transactions and must be aggregated and reported as a single transaction if the total amount exceeds $10,000. Also, a transaction is related even though it occurs during a period of more than 24 hours if the recipient knows, or has reason to know, that each transaction is one of a series of connected transactions. In addition, this form may voluntarily be filed for any suspicious transaction, even if it does not exceed $10,000.

Multiple Payments.—How and when you must report receipt of cash deposits, cash installment payments, or other similar payments or prepayments depend upon the dollar amounts of the initial and subsequent payments.

If the initial payment exceeds $10,000, it must be reported within 15 days. If the initial payment does not exceed $10,000, the recipient must add together the initial payment and subsequent payments made within one year until the total exceeds $10,000, at which time the report must be filed within 15 days. If subsequent payments, singly or in the aggregate, received within any one-year period exceed $10,000, they must be reported separately within 15 days of the date they exceed $10,000 if they have not been previously reported. (If two or more separately reportable payments are received less than 15 days apart, they may be filed on a single report. In this case, the report is due within 15 days of receipt of the first payment.) If subsequent payments, singly or in the aggregate, received within one year do not exceed $10,000, they need not be reported.

Exceptions.—Section 1.6050I-1 of the Treasury Regulations provides for exceptions to the reporting requirements, including:

(1) Financial institutions required to file **Form 4789,** Currency Transaction Report, are exempted from filing Form 8300 for the same transaction.

(2) Casinos required to file (or excepted from filing) **Form 8362** are exempted from filing Form 8300 for the same transaction. However, nongaming businesses (such as shops, restaurants, and hotels) at the casinos must report on Form 8300 receipt of cash in excess of $10,000.

(3) Cash received by a person other than in the person's trade or business is not reportable.

(4) Cash transactions that occur entirely outside the United States are generally exempt from the reporting requirements. The United States includes the 50 states and the District of Columbia. However, if any part of the transaction occurs in Puerto Rico, or a possession or territory of the United States, and the recipient is subject to the general jurisdiction of the IRS under the Internal Revenue Code, the transaction must be reported by the recipient.

(5) An agent who: (a) receives cash from a principal, (b) uses all of the cash within 15 days in a cash transaction that is reportable on Form 8300 or 4789, and (c) discloses all of the information necessary to complete Part II of Form 8300 to the recipient of the cash in the second transaction does not have to file Form 8300 for the initial receipt of the cash.

When and Where To File.—File this form by the 15th day after the date of the transaction with the Internal Revenue Service, Detroit Computing Center, P.O. Box 32621, Detroit, MI 48232, or with your local IRS office. Keep a copy of each Form 8300 for 5 years from the date you file it.

Penalties.—Civil and criminal penalties including up to 5 years imprisonment are provided for failure (or causing the failure) to file a report, for filing (or causing the filing) of a false or fraudulent report, and for structuring a transaction.

Statement To Be Provided.—A written statement must be provided to each person named in this form on or before January 31 of the year following the calendar year in which this report is made. The statement must show the name and address of the business, the total amount of reportable cash received, and that the information was furnished to the IRS. Keep a copy for your records.

Specific Instructions

Item 1.—If you are reporting a suspicious transaction (see *Definitions*), check Box 1b. For a suspicious transaction, you are also encouraged to telephone the local Internal Revenue Service Criminal Investigation Division. If you do not know the number, please call toll-free 1-800-BSA-CTRS.

Part I.—This part must always be completed.

Item 2.—Check the box if two or more individuals conducted the transaction you are reporting. Enter identifying information in Part I for one of the individuals. Provide information on the other individual(s) on additional sheets of paper and attach them to this report.

Item 6.—Enter the social security number of the individual named in Part I. If the individual has no number, enter "None."

Item 8.—In identifying the occupation, profession, or business of the individual named in Part I, use fully descriptive terms such as plumber, attorney, etc., and not nondescriptive terms such as merchant, businessman, self-employed, etc.

Item 13.—Enter six numerals for the date of birth of the individual named in Part I. For example, if the individual's birth date was July 6, 1960, enter 07 06 60.

Item 14.—You must verify the name and address of the individual identified in Part I. Verification must be made by examination of a document normally acceptable as a means of identification when cashing checks (for example, a driver's license, passport, or other official document). In Item 14a, enter the type of document used to verify the identification. In Item 14b, identify the issuer of that document. In Item 14c, enter the document's number. For example, if the individual has a Utah driver's license, enter "driver's license" in Item 14a, "Utah" in Item 14b, and its number in Item 14c.

Part II.—If the individual in Part I is conducting the transaction for himself or herself only, do not complete Part II. In all other cases, complete Part II.

Item 15.—If the transaction is being conducted on behalf of more than one person (e.g., 2 persons are jointly purchasing a vehicle), check the box and complete Part II on any one of the persons. Provide the same information requested in Part II on the other person(s) on additional sheets of paper and attach them to this report.

Item 16.—If the person identified in Part II is an individual, check the "individual" box. For any person other than an individual, check the "organization" box. Check both boxes if the transaction is on behalf of both an individual and an organization.

Item 17.—Check the box if any of the cash received is from a party or parties not identified in Part I or II. Provide the same information requested in Part II on that party or parties on additional sheets of paper and attach them to this report.

Items 18, 19, and 20.—If the person on whose behalf the transaction was conducted was an individual, put his or her last name in Item 18, first name in Item 19, and middle initial in Item 20. If the person is an organization, put its name in Item 18 and leave Items 19 and 20 blank.

Item 21.—If the person is an individual, enter his or her social security number; if not an individual, enter its employer identification number. If the person does not have a social security or employer identification number, enter "None."

Item 22.—If the person is an alien without a social security number, complete this item. Enter a general description of the type of official document issued to that person in Item 22a (e.g., "passport"), the country that issued the document in Item 22b, and the document's number in Item 22c.

Item 29.—Refer to Item 13.

Part III.—This part must always be completed.

Item 30.—Check the appropriate box(es) that describe the transaction. If the transaction is not specified in Boxes a – h, check Box i and briefly describe it (e.g., car lease).

Items 32, 33, and 34.—Provide the total price of the goods purchased, services provided, amount of cash exchanged, etc. (e.g., the total cost of a vehicle purchased, cost of catering service, exchange of currency) in Item 32. Enter the total amount of cash received reportable on this return (see *Multiple Payments* for reporting requirements) in Item 33 and the amount of $100 (and larger) bills in Item 34. Show only nearest dollar amounts. Round 50 cents or more to the next whole dollar.

Item 35.—If the transaction is part of an installment sale, check the box. In Item 35a, enter the number of payments agreed upon; in Item 35b, enter the amount of each installment payment; in Item 35c, check the "monthly" box if the payments are to be made monthly, or the "other" box if the payments are made at any other intervals and describe the intervals (e.g., weekly, semi-annually, etc.). If the installments are for different amounts, attach a schedule.

Item 36.—If the aggregate amount of cash received in two or more installment payments exceeds $10,000, enter the payment date that causes the aggregate amount to exceed $10,000. Also, see *Multiple Payments*.

Item 37.—Check the appropriate box(es). If foreign currency is used, provide the country of issuance and the amount (in U.S. dollar equivalent) in the spaces provided. If currency of more than one foreign country is used, enter the information required by Item 37 on an additional sheet of paper and attach it to this report.

Part IV.—This part must always be completed.

Item 39.—Enter the employer identification number (EIN) of the reporting business. Enter the owner's social security number only if the business has no EIN.

Item 44.—Describe the nature of the business filing the report. Use descriptive terms (auto dealer, jewelry dealer) rather than nondescriptive terms (business, store).

Item 45.—This report must be signed by an authorized individual. Also type or print the name of the signer below the signature.

Definitions

Person.—An individual, corporation, partnership, trust or estate, joint stock company, association, syndicate, joint venture, or other unincorporated organization or group, and all entities treated as legal personalities, including organizations that are exempt from tax.

Cash.—The coin and currency of the United States or of any other country, which circulate in and are customarily used and accepted as money in the country in which issued. It includes United States notes and Federal Reserve notes, but does not include bank checks or drafts, travelers checks, wire transfers, or other negotiable or monetary instruments not customarily accepted as money.

Suspicious Transaction.—A transaction in which it appears that a person is attempting to cause this report not to be filed or a false or incomplete report to be filed; or where there is an indication of possible illegal activity.

Transaction.—It includes (but is not limited to) the purchase of goods, services, personal or real property, and intangible property by a customer; a debt obligation paid for with cash; the receipt and conversion of cash to a negotiable instrument (e.g., a receipt of cash from a person in exchange for a check); and the receipt of cash to be held in escrow or trust.

Question 9.

Please provide a copy of any formal agreements between the Department of Treasury or the Financial Crimes Enforcement Network (FinCEN) and IRS regarding dissemination of FinCEN analytical products containing Form 8300 information. Does IRS foresee any problems implementing these agreements?

Currently, there is no formal agreement in effect between the IRS and the Department of Treasury or the Financial Crimes Enforcement Network (FinCEN) permitting dissemination of Form 8300 data through analytical or intelligence reports prepared by FinCEN. However, IRS and FinCEN representatives have been working together in drafting a letter to the Commissioner from the Assistant Secretary (Enforcement) which would seek approval for FinCEN to include Form 8300 data in strategic and tactical intelligence reports and analytical reports to be disseminated to Customs; Alcohol, Tobacco and Firearms; and Secret Service. These agencies have been permitted access under section 6103(i)(8) to Form 8300 data contained on the TECS data base. The request would also cover the release of such data to IRS officials and employees.

Treasury Regulations 301.6103(p)(2)(B)-1(a) permit the Commissioner to authorize a Federal agency to disclose returns and return information in its possession if the IRS otherwise would have made such a disclosure, and the information is more readily available from such Federal agency.

Chairman **Pickle**. The last witness will be Mr. Jack Keeney, Deputy Assistant Attorney General, Criminal Division, Department of Justice.

Mr. Keeney is the Deputy Assistant Attorney General of the Criminal Division of the U.S. Department of Justice.

If you will take your seat and identify the gentlemen with you.

STATEMENT OF JOHN C. KEENEY, DEPUTY ASSISTANT ATTORNEY GENERAL, CRIMINAL DIVISION, U.S. DEPARTMENT OF JUSTICE, ACCOMPANIED BY HARRY HARBIN, DEPUTY DIRECTOR, MONEY LAUNDERING OFFICE, CRIMINAL DIVISION; STEFAN CASSELLA, TRIAL ATTORNEY, MONEY LAUNDERING OFFICE, CRIMINAL DIVISION; AND JAMES A. BRUTON, DEPUTY ASSISTANT ATTORNEY GENERAL, TAX DIVISION

Mr. **Keeney**. Immediately to my left is James Bruton, Deputy Assistant Attorney General, Tax Division.

To his left is Stefan Cassella, a Trial Attorney in our Money Laundering Office, and Harry Harbin, Deputy Director of the Money Laundering Office.

You have my statement and most of the points made in the statement have been made before today. We would be delighted to move ahead right to the questions.

Chairman **Pickle**. I will proceed to ask you some questions of a general nature.

Your entire statement will be made a part of the record.

[The prepared statement and attachment follow:]

Department of Justice

STATEMENT OF

JOHN C. KEENEY

DEPUTY ASSISTANT ATTORNEY GENERAL
CRIMINAL DIVISION
UNITED STATES DEPARTMENT OF JUSTICE

Mr. Chairman, on behalf of the Department of Justice, I wish to thank you for the opportunity to present the Department's views on the issue of money laundering.

With me today are Harry Harbin, Deputy Director of our Money Laundering Office, and Stefan Cassella, a trial attorney in the same office. Both Mr. Harbin and Mr. Cassella will assist me in responding to any questions you may have. Deputy Assistant Attorney General Mark Richard, who oversees the Money Laundering and Asset Forfeiture Offices, and Michael Zeldin, Director of the Money Laundering Office, would have liked to have been present today but were unable to do so because of religious observations.

Money is the lifeblood of all domestic and international organized crime groups regardless of the criminal activity giving rise to the proceeds. Its flow through the international banking system is what sustains these operations by providing the criminal with the constant source of new capital needed to pay operating expenses and to buy more goods and services. If the flow of money back to the criminal can be cut off, the criminal organization would wither and die no matter how great the demand for its illegal product or services. This is especially true for drug trafficking groups which generally deliver their poison on consignment. That is, suppliers are often not paid until after the drugs are eventually sold in individual use quantities on the street. This is why the world is attaching heightened significance to the money laundering problem.

What I would like to discuss with you today is the approach the Department of Justice has taken to combat this problem. As you requested in your letter to the Attorney General, I will analyze for you our substantive money laundering statutes. In addition, I will suggest several legislative changes within the jurisdiction of this committee that would assist federal law enforcement in combatting money laundering.

For the purposes of this testimony I will discuss the phenomenon of money laundering using drug proceeds as my illustration of how the system operates. But it is important to keep in mind that this system functions equally well for gun and munitions merchants, white collar offenders, arsonists bent on defrauding insurance companies, tax evaders and many others. Thus, the Department of Justice views the matter of money laundering as one which transcends narcotics, and considers money laundering to be an integral part of the operation of virtually all crime syndicates, and a critical aspect of tax evasion schemes as well.

In a typical drug organization, the proceeds generated by the drug traffickers are almost entirely in the form of cash. The typical denomination of currency in street circulation is a twenty-dollar bill.

As the profits for street sales move up the ladder of the trafficking organization -- from the street seller to the wholesaler to the importer -- these twenty-dollar bills, so crumpled and covered with dirt and drug residue that they will often jam the counting machines, are bundled together and collected in warehouses. Regularly, the volume becomes so large that it is easier for the trafficker to weigh the money than it is to count it. Handling this volume of cash is often a more serious logistical problem for the trafficker than the handling of the drugs themselves. (One hundred billion dollars in twenty-dollar bills weighs about 26 million pounds.)

Criminals develop these "storage" problems because they are not easily able to get their cash into the banking system; our cash reporting laws have increased the risk associated with simply walking into a bank with a bag full of twenty-dollar bills. Indeed, we have made getting the cash into a bank the most vulnerable point in the laundering chain.

If the money can be gotten into a bank or other financial institution, it can be wired to any place in the world in a matter of seconds, converted to any other currency, and used to pay expenses and recapitalize the corrupt business. The problem for the drug trafficker, arms merchant or tax evader then, is how to get his money into a form in which it can be moved and used most efficiently without creating a "paper trail" that will lead law enforcement authorities to the illegal business. The process of doing that is what we call money laundering. There are many ways in which it is done.

In the recent past -- in the late 1970's and early 1980's --criminals would simply deposit their cash into U.S. banks where it could be withdrawn immediately in the form of cashier's checks or other negotiable instruments in bearer form and disbursed. While the Bank Secrecy Act required banks to report to the government any such transaction exceeding $10,000, until 1985, compliance with these reporting requirements was lax, and money launderers could easily circumvent the requirements by simply breaking up their cash into bundles of less than $10,000 and going around from bank to bank making deposits or buying cashier's checks. This process has come to be known as "structuring" or, sometimes, "smurfing."

While the Justice Department was fairly successful in prosecuting these money launderers under a variety of legal theories, before 1986, money laundering _per se_ was not a crime. Federal prosecutors were often engaged in an uphill struggle that necessitated reliance on statutes not truly designed to criminalize the actions of money launderers. In case after case, prosecutors were required to invent new and creative legal theories before they could bring the resources of the criminal justice system to bear on the people who made certain crimes possible through their money laundering activities. The courts were not always sympathetic to this effort; and professional criminals needed only to read the cases dismissing the government's indictments to know the ways in which to conduct their financial transactions to avoid prosecution for money laundering.

The situation is now much improved. In 1986, Congress enacted the Money Laundering Control Act which vastly improved the effectiveness of our money laundering enforcement program. First, Congress enacted Section 5324 of Title 31, which imposes criminal liability on any person who willfully "structures" or "smurfs" currency transactions with financial institutions or otherwise seeks to avoid the filing of complete and accurate "Currency Transaction Reports" (CTRs) by the institutions. Persons violating this statute are subject to a maximum term of imprisonment of ten years and/or a fine of $500,000 if the offense was committed while violating another federal law or as part of a pattern of any illegal activity involving more than $100,000 in a 12-month period; in all other cases the offender faces a maximum term of imprisonment of five years and/or a fine of $250,000.

Second, Congress enacted two statutes -- Sections 1956 and 1957 of Title 18 -- which, for the first time, made criminal the act of money laundering *per se*. Section 1956 essentially prohibits persons from engaging in virtually any commercial transaction or transportation or transmission of funds where (1) the person knows that the property involved in the transaction represents the proceeds of some form of felonious criminal activities; (2) the property involved in the transaction in fact represents the proceeds of any of the many "specified unlawful activities," which include virtually every federal or state crime which generates significant proceeds; and (3) the person engages in the transaction with: (a) the intent of promoting the carrying on of specified unlawful activity; (b) the intent to engage in tax fraud or tax evasion; (c) knowledge that the purpose of the transaction in whole or in part is to conceal or disguise the source, nature, ownership, location or control of criminal proceeds; or (d) knowledge that the purpose of the transaction in whole or in part is to avoid a transaction reporting requirement under state or federal law. An important amendment to this statute in 1988 allowed for "sting" offenses involving property "represented" by law enforcement agents to be the proceeds of "specified unlawful activity." Persons violating this statute face a maximum term of imprisonment of twenty years and/or a fine of up to $500,000 or twice the value of the property involved in the transaction, whichever is greater.

Section 1957 prohibits persons from engaging in a "monetary transaction" -- a deposit, withdrawal, transfer, or exchange by, through, or to a financial institution -- where the person knows that the property involved in the transaction represents the proceeds of some criminal offense, the property in fact represents the proceeds of any of the many "specified unlawful activities," and the property has a value in excess of $10,000. Persons violating this statute are subject to a maximum term of imprisonment of ten years and/or fined pursuant to the provisions of Title 18 or, alternatively, in an amount of not more than twice the value of the property involved in the transaction.

Since 1986, our U.S. Attorneys have made great use of these statutes. While the manner of maintaining cases statistics varies agency-by-agency thereby making it impossible for us to respond to your request for statute-by-statute annual statistics, we can offer the following: The Postal Service in FY 1990 initiated 26 cases using the new Title 18 offenses and 11 cases using §5324. IRS referred for prosecution 472 cases in FY 1986, 539 in FY 1987, 567 in FY 1988, 813 in FY 1989, and 710 as of June 30, 1990. Convictions, respectively, for those same time periods are 196, 285, 319, 397, and 451. Both the FBI and the DEA do not keep separate statistics for money laundering cases _per se_. Instead, they track the cases by the underlying predicate crime giving rise to the proceeds laundered (FBI) or by the type of drug involved (DEA). (We have also attached _rough_ statistics of cases filed by U.S. Attorneys Offices broken down by calendar year and statutes.) It is also noteworthy that all Federal law enforcement agencies are devoting increased training in the law enforcement academies to the areas of money laundering and money laundering predicated asset forfeiture.

Beyond the mere numbers of cases brought, the nature and quality of the prosecutions being brought under these statutes reflect a growing sophistication born of steadily increasing familiarity with these statutes by all U.S. Attorneys Offices.

Recent prosecutions include:

* In the Northern District of Georgia, the First Bank of Georgia entered a guilty plea to a criminal information charging

that by and through the collective conduct of certain former officers and employees engaging in a financial transaction to conceal and disguise the nature, location, source, ownership and control of proceeds of an unlawful activity, that activity being the possession with intent to distribute cocaine, a violation of Section 1956 (a)(1) had occurred. The government has recommended that the maximum penalty not to exceed $500,000 be imposed.

* In the Eastern District of Pennsylvania , an indictment was brought against LBS Bank and three other individuals for participation in an international scheme to launder money through Yugoslavia. Prior to trial, two defendants pled guilty to various charges; LBS Bank and a Yugoslavian citizen were convicted on the money laundering counts, which involved both Title 31 and Title 18 violations. Two other defendants were acquitted by the jury, including one of the bank officers.

* In the Western District of Washington, individuals from the United States, Canada, and Australia, recently pled guilty to money laundering counts as well as violations of the Export Administration Act relating to a scheme to export a sophisticated computer and computer work stations to the Soviet Union. The defendants had exported the equipment to a non-existent company in Singapore for reexport to the Soviet Union. The computer equipment was intercepted by the U.S. Customs Service, along with $900,000 in cash. In a plea agreement, the ringleader has agreed to pay $1.5 million in fines and forfeitures and expose himself

to a maximum of 42 months imprisonment.

* In the Central District of California, defendant Sidney Blitz was convicted on eleven counts, one conspiracy count and ten money laundering counts. The money that he laundered derived from a bank fraud scheme involving an exotic car dealership, Rodeo Coach. There were a total of eight defendants indicted in this case. Six pled guilty. One defendant was a fugitive who was just arrested on July 13, 1990. His trial is set for September 25th.

* The U.S. Attorney's Office in the District of Arizona returned an 18-count indictment charging money laundering in which the predicate offense was the entry of goods into the United States bearing counterfeit trademarks. (U.S. v Byron McLaughlin CR. NO. 89-414-TUC). The defendants, Korean businessmen, are alleged to have imported sneakers bearing the counterfeit markings. Money laundering forfeiture counts seek the forfeiture of all of the defendants' property which was directly or indirectly traceable to this scheme as well as all facilitating property.

* The U.S. Attorney's Office for the Western District of New York returned a 45-count indictment charging money laundering in which the predicate offense was bankruptcy fraud. (U.S. v Ted W. Gleave, CR. NO. 90-33A). The defendants are alleged to have

secreted money in offshore bank accounts upon filing for bankruptcy under Chapter 11. Forfeiture counts seek the gross receipts and all other traceable property.

- The U.S. Attorney's Office for the Northern District of Texas returned an 18-count indictment charging money laundering in which the predicate crime giving rise to the laundering was bank fraud. (U.S. v Bob R. Franks, CR. NO. 3-90-104-T). The defendants are alleged to have fraudulently obtained bank loans exceeding $500,000 and used the money in violation of their loan contracts.

- The U.S. Attorney's office for the Eastern District of California returned a money laundering indictment in which the predicate offense giving rise to the laundering was bribery of a state official. (U.S. v Joseph B. Montoya, CR. NO. S-89-199-MLS). It is alleged that a state official solicited a bribe in return for his support of proposed legislation.

- The U.S. Attorney's Office for the Western District of Washington returned a 29-count money laundering indictment in which the specified unlawful activity was the making and passing of counterfeit U.S. Treasury checks. (U.S. v Harvey To-Kong Wong, CR. NO. CR90-73R). This scheme involved the receipt of a counterfeit 1.5 million dollar Treasury check in British Columbia and the subsequent negotiation of the check in the U.S. and wire transfer return of the cashed proceeds to Canada.

- The Central District of California returned a 27-count indictment charging theft of federal funds as the money laundering predicate. (U.S. v Ambers, CR. NO. 90-11ER). The money laundering counts were predicated on the secondary distribution of the stolen funds among the co-conspirators. The defendants in the case are officers with the Los Angeles County Sheriff's Department.

- The Eastern District of Virginia returned a money laundering indictment against several individuals and corporations alleged to have been involved in the sals of drug paraphernalia. (United States v Randall K. Dyer, et. al., CR. NO. 90-183-A). The indictment charges money laundering based upon financial transactions with the proceeds of the paraphernalia sales. The indictment seeks forfeiture under 18 USC § 982 of all property, real or personal, involved in the violations; all property traceable to such property; and any other of the defendants' property as necessary in substitution of this property.

What is clear from these examples is that while historically the money laundering laws have been used primarily to prosecute drug traffickers and their confederates, this situation is rapidly changing. To this end, the Department established in March, 1990, a new office in the Criminal Division: The Money

Laundering Office (MLO). Through this office, we intend to centralize the Department's money laundering efforts. The MLO will serve the Department in several important ways including the following: 1) providing technical expertise to all components on money laundering matters by rendering legal advice and guidance on many of the fairly esoteric points of law and practice that routinely arise within the U.S. Attorneys Offices, other Division offices and sections and the law enforcement agencies; 2) coordinating the Department's money laundering training program, to ensure that all Assistant United States Attorneys and law enforcement personnel have appropriate, uniform training to perform the tasks assigned to them; 3) planning and coordinating multi-district and international money laundering operations; 4) maintaining a pool of highly skilled money laundering prosecutors to handle specific litigation assignments as circumstances warrant; and 5) generating training materials, sample pleadings, newsletters, and other pertinent materials to meet the needs of the field in this very complex and fast developing area of law.

All of this highlights the fact that notwithstanding the addition of the new money laundering statutes and the improvements made to Title 31 and its implementing regulations, we are not witnessing an end to money laundering. Rather, these changes have forced the money launderers to find more difficult and more complex ways of plying their trade. And, any time you make crime more difficult, any time you force the criminal to follow a more circuitous and expensive route or to involve more people in the operation, you make the criminal more vulnerable.

It is to this end, as I will discuss in a few minutes, that enhanced compliance with 26 USC § 6050I, which requires reporting by goods and services providers of cash receipts over $10,000, is of critical importance. That is, as financial institutions themselves have become far more vigilant in enforcing the Bank Secrecy Act, (I must add that the American Bar and Bankers Associations have been working with us on jointly sponsored training programs to ensure ever increasing vigilance) money launderers will turn to alternative industries as the vehicles through which they conceal their ill-gotten gains.

So while we are no longer seeing the volume of cash overtly arriving at tellers' windows for the purpose of buying stacks of $9,000 cashier's checks, we are now seeing a wide variety of new schemes involving wire transfers, cash smuggling, the use of "front" businesses, and cash transfers with precious metal dealers and securities brokers to hide illegal currency sources. Operation Polar Cap is a case in point; Rayful Edmond is another.

In Polar Cap we saw the Los Angeles jewelry mart being used as the hub of an international narcotics conspiracy that laundered more than $1 billion in three years. The way the conspiracy operated was as follows: (1) Drug dealers delivered cash from cocaine sales to sham jewelry companies in New York City; (2) To make their businesses look real, the jewelry firms accepted regular shipments of fake gold bars from Latin America; (3) They shipped out boxes of cash, marked "gold scrap," to two businesses in the L.A. jewelry district that were controlled by the cartel; (4) The cash was counted, bundled and then deposited in L.A. banks, which were told it was from the sale of the supposed gold; (5) Money from L.A. accounts was transferred to the cartel's Manhattan bank accounts, then wired through Panama to South America to pay for coca and operating expenses; (6) Remaining profits were wired to secret accounts in European banks or sold through the parallel money exchange market in South America and returned to the United States where they are used to purchase luxury goods and services.

This last step illustrates a new, sinister phase of the money laundering problem. Money exchangers in Peru, Colombia and Ecuador -- countries where it is legal and commonplace to buy and sell U.S. dollars openly on the streets -- are buying drug dollars from traffickers such as the Medellin Cartel and selling them to businessmen and others who desire to convert their profits and savings into dollars and to deposit those dollars in the United States.

In the example just cited, the money that originated as cash receipts from the sale of cocaine in American cities, ended up being sold by the money exchanger to legitimate Peruvian businessmen and deposited in their accounts in New York and Miami. Attempts by the Department of Justice to seize this money and have it forfeited to the United States are being opposed by the businessmen on the ground that they are "innocent owners" whose rights are protected by the federal money laundering statutes. If this argument is sustained by the courts, Congress may well need to review the innocent owner statutes and determine if changes are required to address this problem. After all, those who purchase drug dollars from a money exchanger on the black market may not technically be part of the drug trafficker's organization, but they provide an essential service -- a market for the drug dealer's dollars -- without which the trafficker could not continue his nefarious enterprise.

Turning now to the matter of the United States v. Rayful Edmond case, we understand that the United States Attorney for the District of Columbia, in documents submitted to the Subcommittee on June 1 and September 7, 1990, advised the Subcommittee that federal law enforcement agents and local police have been and are presently conducting a criminal investigation of certain financial activities of Rayful Edmond and others associated with him. Further disclosure to the Committee regarding this ongoing investigation is constrained by federal laws regulating the disclosure of grand jury information and by other federal laws and Department of Justice policies which limit the dissemination of information gathered during the course of a criminal investigation.

As the United States Attorney discussed in his letter of September 7, the Department is concerned that an independent investigation by this Committee and its staff may well compromise the ongoing investigation by the Department and likely would affect adversely any subsequent prosecution. Efforts by staff investigators to conduct their own investigation, by, for example, interrogating witnesses, extending grants of immunity, or conducting a "sting" likely would undermine legitimate criminal investigative efforts to bring to justice people involved in these alleged money laundering activities. Moreover, any independent investigation may well involve the Committee and its staff in legal proceedings related to defense motions. We are confident that this Committee would have no desire to jeopardize the ability of the Department to investigate and prosecute all criminal activity connected with the Edmond organization's illegal narcotics trafficking.

Please be assured that we will make every effort to keep this Committee apprised of developments as permitted within the constraints of federal law and Department of Justice policy.

In other investigations we have seen criminal organizations, wary of trying to deposit their money directly into a U.S. bank because of our money laundering and anti-structuring statutes laws, choose instead to export their bundles of cash the same way they import their drugs: by filling containers and cargo planes with millions of dollars at a time and shipping them out of the country. While this activity is made criminal under 31 U.S.C. § 5316, simply as a matter of manpower, it is very difficult to detect these outbound smugglers. And if they are successful, and the money finds its way to select foreign countries, it is generally protected by bank secrecy laws. Thereafter the cash can be deposited into the international banking system and wired to wherever the criminal wants it to go.

There are also ways of laundering money that do not involve any dollars ever leaving the United States. Consider, for example, the problems created when international money launderers join forces with persons from countries with strict currency controls, such as Colombia or Peru, desiring to do legitimate business in the United States. Under Colombian law for example, anybody can deposit any amount of local currency (pesos) in a bank without reporting requirements, but nobody can legally export money out of Colombia except by buying foreign currency such as U.S. dollars, at an exorbitant rate of exchange through the Colombian government. A legitimate Colombian businessman who has lots of pesos wants to find a more economical way of exchanging his pesos for dollars and moving those dollars to a country like the United States in order to conduct his legitimate business dealings.

At the same time, the Colombian drug trafficker has lots of dollars in the United States that he would like to bring back to Colombia and convert to pesos to finance his drug business. Our reporting requirements make it very difficult for the trafficker to get his money into the banking system without attracting notice.

Here we have the genesis of a perfect symbiotic relationship. The Colombian businessman who wants to change pesos in Colombia for dollars in the United States, and the drug trafficker, who wants to change dollars in the United States for pesos in Colombia, meet through a money launderer and agree to do their own private exchange. The drug trafficker deposits his dollars for the Colombian in the U.S., while in Colombia, the businessman deposits his pesos for the drug trafficker. Laundering has taken place without any currency physically leaving either country (and, perhaps, without the knowledge of the businessman that he is helping to launder drug money).

This process serves to supply the criminal organizations with the capital needed to maintain their empires -- what the Attorney General has called the "life-blood" of their operations. But, putting a stop to it is not easy: it means imposing sanctions on otherwise legitimate business activities, which could have a significant impact on our economic relationships with developing countries, and it requires a significant change in the level of cooperation between foreign governments and foreign banks in the exchange of information and quite possibly in the structure and enforcement of banking laws.

Another way of laundering money without having the money leave the United States is simply to spend it. When a drug dealer buys a car, boat, airplane or piece of real estate for cash he passes his cash management problem to the seller and acquires an asset that can be used in his drug business or converted to suit his purpose. Section 6050I of the Internal Revenue Code of 1986 provides a means to assist law enforcement in tracking these transactions.

The statute was enacted as part of the Deficit Reduction Act of 1984, because "Congress believed that reporting on the spending of large amounts of cash would enable the Internal Revenue Service to identify taxpayers with large cash incomes." Staff of the Joint Committee on Taxation, 98th Cong. 2d Sess., General Explanation of the Revenue Provisions of the Deficit Reduction Act of 1984, 491 (Comm. Print 1986). The statute requires any person engaged in a trade or business who receives more than $10,000 in cash payments in a single transaction or series of transactions to file an information return (Form 8300) with the Internal Revenue Service. On this return, the recipient of cash must, among other information, report the name, address, and taxpayer identifying information (such as social security number or passport number) of the payor, the amount of cash received, and the date and nature of the transaction giving rise to the payment. This form is similar to the Currency Transaction Reports (CTRs) filed by financial institutions under 31 U.S.C. 5313.

Section 5313 was enacted as part of the Bank Secrecy Act of 1970, but compliance by financial institutions covered by the CTR filing requirement was very poor until 1985 -- the year Section 6050I first became effective. Since then, compliance with the CTR filing requirement has improved markedly. Although it might be argued that this delay was attributable, in part, to the normal gestation period for such legislation, it is the Department's view that the increased compliance is largely due to a number of high profile criminal prosecutions of major banks that took place in 1985.

On the other hand, the rate of taxpayer compliance with Section 6050I remains at unacceptably low levels. It will likely take action on the legislative front, coupled with vigorous civil and criminal enforcement to raise the level of compliance. Moreover, we believe that the current sanctions for failure to comply with Section 6050I are inadequate to spur voluntary compliance. We would, therefore, support legislation designed to strengthen the penalties for noncompliance.

While Section 7203 of the Internal Revenue Code was amended in 1988 to increase the penalty for willful failure to file Forms 8300 from one to five years imprisonment, the civil penalties for failure to file the forms remain at relatively low levels. Thus, Section 6721 of the Code imposes only a $50 penalty for each incorrect or incomplete return filed by a trade or business (up to a maximum penalty of $250,000 per year). And the penalty for intentional disregard of the filing requirement is only $100 for each failure (with a maximum penalty of 10 percent of the aggregate amount of the items reported incorrectly). These civil penalties should clearly be raised to a level where they will have a meaningful economic, and hence deterrent, impact on noncompliance.

Audit and collection efforts in the area of Section 6050I must also be increased. Since the reporting requirements of Section 6050I cover all trades or business -- a vastly larger and more diverse group than the financial institutions covered by the

CTR filing requirement of 31 U.S.C. 5313 -- efforts to increase public awareness of the filing requirement must include wide dissemination of information, coupled with vigorous civil enforcement. Civil agents from the IRS Collection and Examination Divisions regularly participate in targeted efforts to encourage filing of Forms 8300. Section 6050I compliance checks should become routine in civil tax audits involving businesses likely to receive large cash payments.

Finally, the Department of Justice is working with the Internal Revenue Service to target for prosection those business that typically deal in amounts of cash exceeding $10,000 (such as car and boat dealers and jewelry stores) and that willfully fail to file Forms 8300. In the past, the most egregious cases have been prosecuted under the money laundering statutes, which impose greater penalties. However, experience has taught that successful and well publicized criminal prosecutions lead to increased voluntary compliance, and we intend to increase prosecutions for failure to comply with Section 6050I.

Similarly, it may be possible to increase our activity on the civil forfeiture front under 18 U.S.C. 981 in cases in which a failure to comply with Section 6050I is part of a money laundering scheme. The Department is considering whether additional forfeiture authority is necessary to address cases involving compliance with Section 6050I that are not now reached by existing statutes.

Lawyers have presented unique compliance problems in the enforcement of Section 6050I. As a group, lawyers have filed several thousand incomplete Forms 8300 with the Internal Revenue Service asserting attorney/client privilege claims in various forms. The Internal Revenue Service has issued administrative summonses to lawyers seeking to compel disclosure of nonprivileged client identity and fee information. The lawyers' privilege claims are not being tested in the courts, and the Tax Division of the Justice Department has formulated procedures for initiating and handling enforcement actions against lawyers and law firms to complete compliance with Section 6050I. (See attached letter dated September 7, 1990, from Deputy Assistant Attorney General James Bruton to Michael S. Ross of the American Bar Association Grand Jury Committee.)

However, compliance with the reporting requirements alone may not be sufficient to realize the full potential of Section 6050I's application to law enforcement. Once information reported on Forms 8300 is received and assembled, appropriate dissemination of that information is essential. Unlike information gathered on CTRs under the Bank Secrecy Act, Forms 8300 are tax returns and are, therefore, subject to the confidentiality rules of Section 6103 of the Internal Revenue Code. Under this provision, only the Internal Revenue Service and some law enforcement offices within the Treasury Department have unrestricted access to the information supplied on Forms 8300.

Section 6103(i)(8) of the Code authorizes certain federal law enforcement agents to obtain access to information supplied pursuant to Section 6050I by filing a written request with the Internal Revenue Service. Some law enforcement agencies have found this procedure cumbersome, and the statute totally denies state, local, and foreign law enforcement authorities routine access to this information. unimpeded disclosure would obviously assist law enforcement. The Department is currently considering the advisability of seeking broader and less cumbersome disclosure of Section 6050I information, consistent with legal restrictions on the enforcement of Internal Revenue Service administrative summonses and other provisions of the Code, and consistent with maintaining appropriate restrictions on the dissemination of confidential information.

Since I have mentioned legislation, I should note that there are a number of very significant and important changes to the money laundering and related forfeiture statutes now pending in the House of Representatives in a Senate-passed bill, S.1970. One of these removes an ambiguity in the penalty provision applicable to §6050I, making it clear that violations of that statute are felonies. Also, there are now pending in H.R.5269, provisions that would extend for two years both the dissemination exemption for Forms 8300, and the authority for IRS to "churn" assets in undercover operations. Without the latter authority, all money received in an undercover sting operation would have to be deposited to the Treasury General Fund and could not be reinvested in the operation, making the undercover operation cost prohibitive.

We urge members of this committee to support all of these provisions so that they may become law before Congress adjourns this fall.

Mr. Chairman, this concludes my remarks. I thank the Subcommittee for its interest in the views of the Department of Justice. I would be happy to answer any questions you may have.

U.S. Department of Justice

Tax Division

Office of the Deputy Assistant Attorney General

Washington, D.C. 20530

September 7, 1990

Michael S. Ross, Esquire
Chairperson
American Bar Association
  Grand Jury Committee
41 Madison Avenue
New York, New York 10010

Re: American Bar Association Proposed Guidelines
for Enforcement of Section 6050I

Dear Mr. Ross:

This letter responds to your March 16, 1990, letter transmitting the American Bar Association Grand Jury Committee's proposal for guidelines to be used by the Department of Justice in enforcing the information reporting requirement of Section 6050I of the Internal Revenue Code of 1986. We appreciate having the benefit of the thoughts and hard work of your Committee.

As you know, when we received your Committee's proposal, only two cases had been commenced in the Southern District of New York to enforce summonses against law firms for refusing to comply with the reporting requirements of Section 6050I. We have recently begun receiving a number of similar summons enforcement referrals from the Internal Revenue Service and are carefully evaluating them to determine whether summons enforcement proceedings should be initiated against lawyers for refusing to comply with summonses calling for information required to be supplied by Section 6050I.

Your Committee's proposal has brought sharply into focus the questions whether and, if so, to what extent the Department of Justice has authority to create formal exceptions to the statute's universal reporting requirement through the implementation of litigation guidelines. Although we certainly agree that the Department of Justice has discretion to decide which cases to pursue in court, we believe your proposal misses the mark by suggesting that the Department has broad authority, in effect, to exempt classes of individuals from the reporting requirement of Section 6050I.

Section 6050I calls for reports of cash receipts in excess of $10,000 by "[a]ny person . . . who is engaged in a trade or business." The statute provides only two exceptions: (1) cash receipts of certain financial institutions required to file similar reports under 31 U.S.C. Section 5312(a)(2) and (2) transactions occurring entirely outside the United States. Other than the exception created to avoid dual reporting by financial institutions, the statute does not exempt any trade or business from disclosure of large cash receipts. The statute also requires disclosure of the name, address, and Taxpayer Identification Number of the payor; the amount of cash received; and the date and nature of the transaction. The Secretary of the Treasury is delegated specific statutory authority to prescribe in regulations the date for reporting the transaction, the breadth of the two statutory exemptions, and any "other information" that may be required to be supplied.

In May of 1985, the Treasury Department published in the Federal Register Temporary Regulations intended for immediate guidance in applying Section 6050I after its effective date of January 1, 1985. The Temporary Regulations applied the reporting requirements to attorneys as well as all other trades and businesses, but the Preamble to the Temporary Regulations stated that "the Service will entertain comments from the legal community concerning the possibility of developing an exception to the reporting requirement for information on transactions which might fall within the scope of the attorney-client privilege."

After hearing extensive comment from practitioner groups requesting an exemption for legal fees or modification of the statutory disclosure requirements for lawyers, the Treasury Department promulgated final regulations on September 3, 1986. Those regulations make no exception for cash payments of legal fees. To the contrary, Treasury Regulation, Section 1.6050I-1(c)(3)(iii) Example (2) specifically refers to "[a]n attorney [who] agrees to represent a client in a criminal case" and receives an aggregate hourly fee of $12,000 in cash. Far from creating an exception, the regulation directs that in such circumstances "the receipt of cash must be reported under this section." It is our understanding that many of the concerns raised by your proposed guidelines were considered and rejected by the Treasury Department in formulating the regulation.

Because Congress expressly delegated authority to the Treasury Department to promulgate regulations delineating the statute's reporting requirements and the statutory exceptions, these regulations are not simply one agency's interpretation of what Congress intended the statute to mean. They are legislative regulations entitled to considerable weight in the courts, and, unless inconsistent with the statute, have the "force and effect of law." *Maryland Casualty Co.* v. *United States*, 251 U.S. 342, 349 (1920). *See also* *United States* v. *Vogel Fertilizer Co.*, 455 U.S. 16, 24 (1982); *Allstate Insurance Co.* v. *United States*, 329 F.2d 346, 349 (7th Cir. 1964).

The Justice Department, on the other hand, is not mentioned in Section 6050I as having authority to create exceptions to the statute's reporting requirements. Nevertheless, your Committee's guideline proposal calls upon the Department to delineate cases in which the reporting requirements would effectively be abrogated through a lack of enforcement. But we agree with the conclusions reached by the Treasury Department in the final regulations and are not persuaded that formulating cash reporting exemptions for certain classes of lawyers would be a good policy or fair to others covered by the statue. We do not, therefore, believe it appropriate to attempt to create reporting exceptions by doing indirectly what the statute and the regulations so plainly decline to do.

Your Committee's proposal urges us to adopt guidelines similar to the existing Department of Justice "Policy With Regard to the Issuance of Grand Jury or Trial Subpoenas to Attorneys for Information Relating to the Representation of Clients" set forth in United States Attorneys' Manual 9-2.161(a) that would govern Section 6050I summons enforcement actions proposed against lawyers, where the cash-paying client is known to be "under investigation." But the issuance of subpoenas to lawyers is entirely discretionary, whereas the enforcement actions here are not. In essence, your proposal would relieve some lawyers of the obligation to disclose their own records of cash receipts by compelling the Internal Revenue Service, as a precondition to enforcement, to make "all reasonable attempts" to perform the almost impossible task of obtaining "information [lawyers are required to report on the Form 8300] from alternative sources." Moreover, it would improperly involve this Department in making a fact-based determination about the need for information that Congress has, by enacting Section 6050I, already categorically made. In short, the attorney subpoena guidelines simply do not fit these Section 6050I summons cases.

Although we decline to adopt guidelines along the lines your Committee has suggested, we nevertheless intend carefully to evaluate and exercise sound judgement in determining which cases should be selected for summons enforcement actions. In each case, we will, therefore, consider pertinent legal, factual, and evidentiary questions in determining the appropriateness of initiating a summons enforcement action.

It is our view, borne out by the vast majority of court decisions, that client identity and fee information are not generally subject to the attorney-client privilege, but we are aware that some courts have alluded to the possibility of the existence of "special" or "exceptional" circumstances that may in rare circumstances render such information privileged. *See, e.g.*, *In re Shargel*, 742 F.2d 61, 62 (2d Cir. 1984); *Tornay* v. *United States*, 840 F.2d 1424, 1427-28 (9th Cir. 1988). As a general proposition, it is our view that the exercise of the Department's discretion in bringing these cases to court should focus primarily on those actually presenting "special circumstances" that could be construed to give rise to a valid claim of privilege.

Although some of your Committee's submissions to this office urge us to consider a general chilling effect on the attorney-client relationship, regardless whether the information sought could reasonably be expected to be held privileged by the courts, it is our view that the courts' analysis of the existence of privilege strikes a proper balance between the governmental need for information and the protection necessary to facilitate the appropriate flow of information between client and attorney. *See, e.g.* *Tornay*, 840 F.2d at 1428-29. To be sure, some bar association disciplinary rules and opinions purport to cast broader protection over client confidences than does the attorney-client privilege, and those rules may, in fact, generally extend to client identity and fee information. But those rules and opinions only address the protection of the interests of clients and do not, therefore, take into account the important countervailing interest that the government has in obtaining non-privileged information required to be produced by law.

We understand that the issues raised by the enforcement of Section 6050I are of great importance to the Grand Jury Committee and other practitioner groups. It is, therefore, our intention, at least in the short term, to proceed perhaps more cautiously than the legal issues warrant by requiring authorization from the Assistant Attorney General for the Tax Division before a summons enforcement action may be brought against a lawyer under Section 6050I. In evaluating these cases, the Tax Division will consider information supplied by summoned lawyers to the Internal Revenue Service. Such information may be supplied to the Service on the Form 8300 or any attachments to the form, in any affidavits or correspondence, or verbally to an Internal Revenue Service agent. We will work out procedures with the Internal Revenue Service to assure that all such materials are forwarded to the Tax Division whenever the Service recommends summons enforcement in one of these cases.

The Committee's guideline proposal asks the Tax Division to delineate the kinds of representations lawyers could make to obtain favorable consideration of their defenses. The courts have not defined "special circumstances," and we doubt that it would be worthwhile for the Tax Division to attempt to do so. Lawyers who receive cash in amounts necessary to trigger the filing requirement are in the best position to know the facts that may be alleged to make their cases "special" within the meaning of the applicable case law. Although we recognize that some lawyers may be unwilling to provide any information without assurance of the existence of a safe-harbor, they will eventually have to produce some information in court to support a claim of privilege. Furthermore, the question of privilege is almost entirely fact-bound, and a safe harbor hardly makes sense in the context of such an inquiry.

The proposed guidelines ask the Tax Division to treat these summonses as John Doe summonses under Section 7609(f). That section requires the Internal Revenue Service to obtain approval from a court before issuing a summons "which does not identify the person with respect to whose liability . . . [it] is issued." Summonses issued to lawyers to ascertain their own liability to comply with the reporting requirement of Section 6050I are not subject to this limitation. We have seen it argued that the Internal Revenue Service is really only interested in obtaining information about clients who pay cash, not lawyers who receive it. But this argument misses the point that Section 6050I is a compliance provision concerned with tracing the flow of cash income to its recipient to assure the payment of all applicable taxes. *See* Staff of the Joint Committee on Taxation, 98th Cong. 2d. Sess., *General Explanation of the Revenue Provisions of the Deficit Reduction Act of 1984* 491 (Comm. Print 1986).

A recent GAO report identified lawyers among the groups that most often underreport taxable income, so the Service has a significant interest in verifying the source, amount, and circumstances surrounding a lawyer's receipt of substantial cash income. *See* General Accounting Office, *Tax Administration. Profiles of Major Components of the Tax Gap. Briefing Report to the Chairman, Subcommittee on Oversight, Committee on Ways and Means, House of Representatives* 3, 29 (April 1990). Lawyers, like all other taxpayers, are subject to Internal Revenue Service audit, and the Service is not prevented, simply by the nature of the lawyer's business, from attempting to verify the amount and nature of the lawyer's income. Summonses to lawyers under Section 6050I are not, therefore, even colorably John Doe summonses, and the Department of Justice does not intend to concede the issue in guidelines.

We appreciate the views of your Committee and welcome further discussions with you as our effort to enforce section 6050I proceeds.

Sincerely yours,

James A. B

JAMES A. BRUTON
Deputy Assistant Attorney General
Tax Division

cc: James J. Keightley
Associate Chief Counsel (Litigation)
Internal Revenue Service

Michael L. Bender, Esquire
Chairperson
American Bar Association
Criminal Justice Section

Completed Prosecutions of Individuals

	1985	1986	1987	1988	1989	as of 6/30 1990
5313	20	17	34	26	25	40
5314	0	1	1	1	0	1
5315	2	2	0	0	1	1
5316	37	88	103	94	129	114
5324			0	19	25	43
1956			2	23	36	53
1957			0	0	1	5

Individuals Filed Against

	1985	1986	1987	1988	1989	1990
5313	34	39	22	28	45	48
5314	1	0	0	1	0	1
5315	0	1	0	3	1	2
5316	54	103	122	127	164	142
5324			12	21	96	95
1956			17	39	95	151
1957			0	0	8	6
6050I						1

Guilty Pleas/Verdicts

	1985	1986	1987	1988	1989	19990
5313	19	15	24	17	18	33
5314	0	0	1	1	0	1
5315	2	1	0	0	1	1
5316	32	71	89	79	106	94
5324			2	14	17	35
1956			1	23	28	48
1957			0	0	1	2

Chairman PICKLE. We are doing this not just in the interest of time but I realize it has been a long hearing.

Mr. KEENEY. Also, Mr. Chairman, in fairness to points that I make in my statement have already been made in the course of the proceedings with your witnesses, the Treasury and IRS people.

Chairman PICKLE. I am going to ask you some general questions for your comments.

Do you think that businesses generally are complying with section 6050I?

Mr. **Keeney**. No, sir. It seems to me that the educational process has not been that extensive and that unlike what you did here today, getting the attention of the law enforcement community, I don't think that the enforcement people are getting the attention of the business community with respect to their obligations in dealing with cash.

Chairman **Pickle**. If they are not doing it how do we get the business community to comply?

Mr. **Keeney**. By education, but the most effective education as was demonstrated in the CTR situation is the filing of serious criminal charges and obtaining convictions of people in the business community.

Chairman **Pickle**. You are saying we need something like the Bank of Boston case?

Mr. **Keeney**. That is correct.

If that is what we mean are you, Justice, currently conducting any investigations that might lead to a case like the Boston——

Mr. **Keeney**. Investigations are being conducted which hopefully will lead to something like the Bank of Boston. I will defer to Mr. Bruton on the answer to that question.

Chairman **Pickle**. Have you, Justice, ever put anybody in jail for violation of section 6050I?

Mr. **Bruton**. Not at this point. There is one case pending and one case referred pending indictment but there have been no charges.

Chairman **Pickle**. Wouldn't it be effective if we put a few people in jail because of violations of 6050I?

Mr. **Bruton**. It would, Mr. Chairman.

Mr. **Keeney**. We don't have the cases. The cases haven't come through the system. We have had a number of situations which were alluded to here today which had 6050I implications but were prosecuted under other statutes.

Chairman **Pickle**. Now, can you tell me in how many cases you indicted someone for violations of section 6050I?

Mr. **Bruton**. There were no indictments specifically for violations, failures to file under the section 6050I. There have been none until the two referred to.

Chairman **Pickle**. Mr. Murphy referred to where indictments have been made in Virginia and Louisiana and other places. Weren't those indictments made through the Department?

Mr. **Bruton**. They were.

Those cases are not under the 7203 charge that is part of the IRS Code. Those are money laundering and other related type cases.

Chairman **Pickle**. There have been no indictments?

Mr. **Bruton**. There have been on that score but they are not tax indictments for failing to file the forms.

Chairman **Pickle**. In those cases where you have had indictments, have you had any convictions?

Mr. **Bruton**. The one case is pending trial. That should be soon. The other case is in plea negotiations.

Chairman **Pickle**. Did you or the Department of Justice investigate any of these merchants who dealt in the Rayful Edmond case or any of the codefendants for violation of section 6050I?

Mr. **Keeney**. Mr. Chairman, there are a number of investigations going on in this general area. I think the Unites States Attorney provided you with a great deal of information with respect to what has been seized and what has been identified as being forfeitable property.

There are still some matters that are open. As a matter of fact, some of the Criminal Investigation is still open in that matter.

Chairman **Pickle**. You are saying then that in some of the Rayful Edmond cases that indictments are underway?

Mr. **Keeney**. Well, some of the indictments are underway. Let me amend that, some of the indictments are underway in the narcotic violations and some are pending trial.

There are investigations involving not only the people using the cash but some who accepted it. Because we are reluctant to discuss it, we could not give you a complete report on the total Rayful Edmond case because of the completeness of the investigation.

Chairman **Pickle**. Are you investigating merchants in the Rayful Edmond case?

Mr. **Keeney**. Yes.

Chairman **Pickle**. Did you start that investigation before or after our subcommittee mentioned the merchants?

Mr. **Keeney**. I don't know. I think we started the investigation before. I would have to check that.

Chairman **Pickle**. I think the facts will show that. But we are left to believe and it serves the purpose of only emphasizing the point, but actually this Rayful Edmond case is over 2 years old and no indictments were done until we talked to the merchants and they admitted they had not filed these forms.

Is that essentially correct?

Mr. **Keeney**. It is essentially correct, Mr. Chairman.

The point I am trying to make, Mr. Chairman, is that the U.S. Attorneys office is still following through on those investigations. The matter is not complete. Because of that, we cannot give you a complete report. We would like to be allowed to go our own way and complete the investigation and maximize the likelihood of being able to indict and convict some of these merchants.

Chairman **Pickle**. It would appear to this member that where you have a clear case of these transactions having taken place, clear evidence that cash was transferred, the merchants admitted a violation of law had taken place. It has been going on now for 2 years.

And you are just now getting indictments. It seems to me that since the facts are so clearly established that surely we will have some result of these cases pending.

Mr. **Keeney**. Mr. Chairman, I would like you to give us the opportunity to complete our investigation and go forward with the most effective cases. Second, the effective date of the smurfing amendments was not until November 1988. Some amendments discussed here today were cases which took place prior to that time.

I am asking for your patience, Mr. Chairman. Let me add one thing. If we don't do a good job, call us up here and call us in to account.

Chairman **Pickle**. Well, I would say, when did you get religion, so to speak. I think that is a question that has to be asked because of the time involved. We will not proceed with that.

Now we are all in agreement, I think, that if there has been a violation, these cases ought to be prosecuted.

Mr. **Keeney**. Agreed.

Chairman **Pickle**. I think the Congress and the country is going to be expecting us to do something instead of handling paperwork.

Mr. **Keeney**. You have a right to expect that, Mr. Chairman.

Chairman **Pickle**. I think we have a right to. Now, do you have any suggestions for us in the committee as representatives of the Congress to try to find a better answer to process these things? Do we need to change the law? Do we need to make specific legal corrections?

Mr. **Keeney**. There are some changes. I think some of the changes pending in the omnibus legislation might be helpful.

Stef, do you want to comment?

Mr. **Cassella**. We have proposed 50 or 55 amendments to the forfeiture statues in title XXI which are pending in the Senate-passed bill and in one that is pending in the House.

One amendment to 6050I would correct it, so that it punishes the crime as a felony and not a misdemeanor. We recognized that problem as soon as the initial statute was passed. Moreover, 6050I has no forfeiture provision as CTR statutes do.

Earlier today there were discussions about dissemination of the 6050I, form 8300 reports which we would ask you to consider.

Chairman **Pickle**. It sounds to me like your almost sole emphasis has been on the narcotics approach, to catch the big drug men, and not on the average merchants, whether they comply or not. Is that essentially correct?

Mr. **Cassella**. I would disagree that we concentrate only on narcotics. We perceive money laundering covering the gamut from white collar crime to narcotics. It is true that we have been focusing on the other money laundering statutes, CTR statutes, section 1956 and 1957 statutes. Until 1988, the 6050I statute only had a 1-year misdemeanor penalty. The changes were made less than 2 years ago.

It is true that until then we focused on the other areas. I believe you are absolutely correct, though, in calling our attention to section 6050I. I agree we have to have major prosecutions under that statute.

Chairman **Pickle**. I can understand why you would be focusing on the drug lords and the narcotics problems. That is understandable. But the law says anybody dealing with cash transactions of over $10,000 must fill out these forms. I don't think you have looked at that as far as business is concerned at all.

Obviously, you have not because it is basically 4 to 6 years and you have done nothing to fix it. The law says res ipsa loquitur. Essentially, it speaks for itself. We have looked at one aspect only, not the business community as a whole. Do you disagree?

Mr. **Keeney**. Sir, there is an assumption being made here today which is not accurate. I cannot go into detail and refute it but to say we are totally inactive with respect to the business community in the violations of this statute is not accurate. I think at some point in the future that will be made apparent.

Chairman **Pickle**. I accept your protestation on it but I also say that the results have to speak for themselves. Somewhere in between what you proclaim is a protestation and what is the result, remains the truth.

That remains to be seen. The law should be complied with by everybody, shouldn't it?

Mr. **Keeney**. Mr. Chairman, I think the committee is performing a great service in making known, as these hearings are making known, the fact that the small business community, in particular, and the business community in general is not abiding by this and making clear that you are telling the Treasury Department, the IRS and the Department of Justice that you expect prosecution in this area.

I think that is a great service. We are all getting the message.

Chairman **Pickle**. I appreciate that.

Mr. Shaw.

Mr. **Shaw**. Thank you.

I would like to associate myself with the Chairman's expression of frustration and dissatisfaction with the Department's direction as to this particular form. I know you have a lot of things on your plate. You are short handed and there are a lot of problems and perhaps this is one not at the top of your list.

I think from the standpoint of just carrying out the intent of Congress that some type of prosecution is necessary and that some of these cases must go to prosecution. I can well understand your statement with regard to on-going prosecutions but surely something should have been completed by now and you should be able to stand here and give us some kind of statistics but you have been unable to do so.

Certainly, I would go along with your request. I don't want to put out something in a future meeting that might compromise the Department's efforts.

I have in addition to those comments, just one additional question. With regard to the answers you all gave concerning the 15 seizure items listed in a letter. You may know this committee has been very active in looking at the confiscated assets, the sale of these assets particularly in the Customs Service. These 15 assets that were provided in the letter of September 7, on some of them there is the disposition made and in others you do not. Perhaps that is because you still have them in your custody.

I would like to know for the purposes of the record, unless you have the information today, that these 15 items be listed as to disposition, what price you got for them, what expenses were there of sale and custody.

Mr. **Keeney**. We don't have that today but we will be glad to get it for you.

Mr. **Shaw**. If you could supply that for the record, I think that would be very helpful.

[The information follows:]

U. S. Department of Justice

Washington, DC 20530

RECEIVED
OCT 2 2 1990
HON. E. CLAY SHAW

OCT 16 1990

The Honorable E. Clay Shaw
Subcommittee on Oversight
Committee on Ways and Means
U.S. House of Representatives
Washington, DC 20515

Dear Congressman Shaw:

John C. Keeney, Deputy Assistant Attorney General, Criminal Division, U. S. Department of Justice, has asked that I respond to your request for information concerning the disposition of fifteen assets seized in the Rayful Edmond III et al. drug investigation in the District of Columbia.

The information submitted in the enclosure was provided by Assistant United States Attorney for the District of Columbia, John P. Dominguez. He has submitted all available information on the status of the fifteen assets. You will note in the enclosure that ten of the items were not seized because four were sold to an innocent third party; two were traded for other items which were subsequently seized; and four are subject to seizure if and when located. The remaining five items were FBI or DEA seizures from the Rayful Edmond III investigation.

This information is hereby submitted in the format provided by Christopher A. Smith of your staff. If I may be of further assistance, please contact me at 514-1263 in the Asset Forfeiture Office of the Criminal Division.

Sincerely,

Laurence E. Fahn
Acting Director
Asset Forfeiture Office
Criminal Division

Enclosure

cc: John C. Keeney
Deputy Assistant Attorney General
Criminal Division

John P. Dominguez
Assistant United States Attorney
Washington, DC

Properties Involved in Rayful Edmond Drug Investigation

Seizure No: Not applicable.

Seizure Date: The swimming pool was not seized because it had been sold with real propety to an innocent third party.

Item Seized: Swimming pool improvement made to 12200 Kingswell Street, Mitchellville, MD.

Violator ID: Rayful Edmond III.

Original Owner ID: Constance Perry and George Derricott.

Forfeiture Date: Not applicable.

Disposition Date: April 24, 1990

Initial Appraised Value: $7000.00.

Subsequent Appraisal: Not Applicable.

Costs Incurred: Not applicable.

Lien Payments: Not applicable.

Sale Price: Included in the sale of 12200 Kingswell St., Mitchellville, Md.

Buyer ID: Ford T. Johnson (innocent third party).

2

Seizure No: Not applicable.

Seizure Date: The property was not seized because it had been sold to an innocent third party.

Item Seized: 12200 Kingswell Street, Mitchellville, MD.

Violator ID: Rayful Edmond III.

Original Owner ID: Constance Perry

Forfeiture Date: Not applicable.

Disposition Date: April 24, 1990

Initial Appraised Value: $116,500.00

Subsequent Appraisal: Not Applicable.

Costs Incurred: Not applicable.

Lien Payments: Not applicable.

Sale Price: Unknown

Buyer ID: Ford T. Johnson (innocent third party).

3

Seizure No.: 3920-88-S-0061 (FBI) ?.[1]

Seizure Date: Vehicle subject to seizure if and when found.

Item Seized: 1987 Porsche 928 VIN# WPOJBO921HS862131.

Violator ID: Rayful Edmond III.

Original Owner ID: Joe Reed.

Forfeiture Date: Not applicable.

Disposition Date: Not applicable.

Initial Appraised Value: $66,158.00.

Subsequent Appraisal: Not applicable.

Costs Incurred: Not applicable.

Lien Payments: None.

Sale Price: Not applicable.

Buyer ID: Not applicable.

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[1] FBI seizure numbers containing the letter S are statistical tracking numbers assigned to properties which were under investigation, but not seized.

?.Seizure number not confirmed by FBI

4

Seizure No.: 57161 (DEA).

Seizure Date: April 14, 1989.

Item (Seized): 1988 Mercedes Benz 560 SEC.

Violator ID: Rayful Edmond III.

Original Owner ID: T. Bount Reynolds.

Forfeiture Date: June 8, 1990.

Disposition Date: Not applicable.

Initial Appraised Value: $49,750.00.

Subsequent Appraisal: None.

Costs Incurred: Unknown.

Lien Payments: None.

Sale Price: Pending auction.

Buyer ID: Not applicable.

5

Seizure No.: The vehicle was not seized because it had been traded towards the purchase of a 1989 Acura Legend. Acura subsequently seized by FBI, seizure number 3920-89-F-0068.

Seizure Date: Not applicable.

Item (Seized): 1988 Range Rover.

Violator ID: Alta Rae Zanville.

Original Owner ID: Same as violator.

Forfeiture Date: Not applicable.

Disposition Date: Not applicable.

Initial Appraised Value: Unknown.

Subsequent Appraisal: Not applicable.

Costs Incurred: Not applicable.

Lien Payments: Not applicable.

Sale Price: Not applicable.

Buyer ID: Unknown.

6

Seizure No.: Not applicable. This vehicle was not seized because it had been traded in for $19,000 and a $25,000 Audi which were both subsequently seized.

Seizure Date: Not applicable.

Item Seized: 1988 Mercedes Benz 560.

Violator ID: Bernice and Dave McCraw.

Original Owner ID: Same as violators.

Forfeiture Date: Not applicable.

Disposition Date: Not applicable.

Initial Appraised Value: $49,750.00.

Subsequent Appraisal: Not applicable.

Costs Incurred: Not applicable.

Lien Payments: Not applicable.

Sale Price: Not applicable.

Buyer ID: Unknown.

7

Seizure No.: Not applicable.

Seizure Date: Not applicable.

Item (Seized): 1988 Mercedes Benz 300 CE VIN# WDBEA50D6JA779594.

Violator ID: Rayful Edmond III.

Original Owner ID: Bernice Daniels.

Forfeiture Date: Not applicable.

Disposition Date: Not applicable

Initial Appraised Value: $51,000.00.

Subsequent Appraisal: Not applicable.

Costs Incurred: Not applicable.

Lien Payments: Not applicable.

Sale Price: Unknown.

Buyer ID: Metropolitan Motors (innocent third party).

8

Seizure No.: 3920-89-S-0136 (FBI).

Seizure Date: Vehicle subject to seizure if and when found.

Item (Seized): 1988 Mercedes Benz 300 CE VIN# WDBEA50D2JAG52499.

Violator ID: Rayful Edmond III.

Original Owner ID: Patrina Steadman.

Forfeiture Date: Not applicable.

Disposition Date: Not applicable

Initial Appraised Value: $9,000.00.

Subsequent Appraisal: Not applicable.

Costs Incurred: Not applicable.

Lien Payments: None.

Sale Price: Not applicable.

Buyer ID: Not applicable.

9

Seizure No.: 57523 (DEA).

Seizure Date: April 14, 1989.

Item Seized: 12207 Kingsbrook Street, Mitchellville, Maryland.

Violator ID: Jeffrey L. Thompson and Raynice Thompson.

Original Owner ID: Same as violators.

Forfeiture Date: Judge Richey stayed the jury verdict of forfeiture (4-20-90) on the property pending appeals.

Disposition Date: Not applicable.

Initial Appraised Value: $115,000.00.

Subsequent Appraisal: None.

Costs Incurred: $3,235.56. (USMS total as of 10-10-90)

Lien Payments: $96,751 owed to Dominion Bankshares Mortgage Corp at time of seizure.

Sale Price: Not applicable.

Buyer ID: Not applicable.

10

Seizure No: This property has not seized because it had been sold to an innocent third party at public auction before it could be seized.

Seizure Date: Not applicable.

Item Seized: 251 Castleton Terrace, Upper Marlboro, Maryland

Violator ID: Rachelle Edmond and Jerry R. Millington.

Original Owner ID: Same as violators.

Forfeiture Date: Not applicable.

Disposition Date: Not applicable.

Initial Appraised Value: $97,000.00.

Subsequent Appraisal: None.

Costs Incurred: Not applicable.

Lien Payments: Property repossessed by lienholder, Merit Banc and subsequently sold.

Sale Price: Unknown.

Buyer ID: Unknown.

11

Seizure No.: 57524 (DEA).

Seizure Date: April 15, 1989.

Item Seized: 1009 Peconic Place, Upper Marlboro, Maryland.

Violator ID: Rachelle Edmond and Jerry R. Millington.

Original Owner ID: Same as violators.

Forfeiture Date: A jury returned a verdict of seizure on the property in Cr. No. 89-0162 on 1-17-90, but Judge Richey stayed execution of the forfeiture order pending appeal.

Disposition Date: Not applicable.

Initial Appraised Value: $150,000.00.

Subsequent Appraisal: None.

Costs Incurred: $5234.06. (USMS total as of 10-10-90).

Lien Payments: $86,915.08 owed to Banc Plus Mortgage Corp at time of the seizure.

Sale Price: Not applicable

Buyer ID: Not applicable

12

Seizure No.: 3920-90-F-0002 (FBI).

Seizure Date: April 17, 1989.

Item Seized: 14518 London Lane, Bowie, Maryland.

Violator ID: James Antonio Jones.

Original Owner ID: James A. Jones, Wendy R. Blair, Bernard Hines (all partial owners).

Forfeiture Date: The property was the subject of a forfeiture order dated 1-17-90 in Cr. No. 89-0162.

Disposition Date: Not applicable, sale pending

Initial Appraised Value: $120,000.00.

Subsequent Appraisal: None.

Costs Incurred: $3,235.56. (USMS total as of 10-10-90).

Lien Payments: $97,860.64 owed to Barclays American Mortgage Corp at time of the seizure.

Sale Price: Not applicable.

Buyer ID: Not applicable.

13

Seizure No.: This item has not been seized because it has not been located.

Seizure Date: Not applicable.

Item Seized: Rolex Presidential Wristwatch

Violator ID: Rayful Edmond III.

Original Owner ID: Same as violator.

Forfeiture Date: Not applicable.

Disposition Date: Not applicable.

Initial Appraised Value: Not applicable.

Subsequent Appraisal: Not applicable.

Costs Incurred: Not applicable.

Lien Payments: Not applicable.

Sale Price: Not applicable.

Buyer ID: Not applicable.

14

Seizure No.: 57670 (DEA).

Seizure Date: May 3, 1989.

Item Seized: 1987 Nissan 300ZX Turbo.

Violator ID: Rayful Edmond III.

Original Owner ID: Shirley Tate.

Forfeiture Date: July 31, 1990.

Disposition Date: July 31, 1990.

Initial Appraised Value: $12,450.00.

Subsequent Appraisal: None.

Costs Incurred: Unknown.

Lien Payments: None.

Sale Price: Placed into official use.

Buyer ID: Not applicable.

Seizure No.: 3920-89-S-0138 (FBI).

Seizure Date: Not applicable.

Item Seized: 1987 Jaguar XJS.
The jury returned a verdict of seizure in Cr. No. 89-0162 but the Government has been unable to seize this car. The VIN number has been entered in the National Criminal Information Computer along with instructions that the car, once located, is to be seized.

Violator ID: Rayful Edmond III.

Original Owner ID: Keith Hawkins.

Forfeiture Date: Not applicable.

Disposition Date: Not applicable.

Initial Appraised Value: Not applicable.

Subsequent Appraisal: Not applicable.

Costs Incurred: Not applicable.

Lien Payments: Not applicable.

Sale Price: Not applicable.

Buyer ID: Not applicable.

Chairman **Pickle**. Mr. Keeney before you go, let me ask this broad question. It seems to me that the Justice Department prosecutes criminals now under other statues because of stiffer fines and longer sentences.

Now, under 6050I, if the penalties and fines were increased, would they be more likely to be processed, that the Justice Department would then follow them to bring them to prosecution?

Mr. **Harbin**. An increase in all sanctions, civil and criminal, would have the beneficial effect not only of increasing compliance but also of increasing the likelihood that we would bring prosecutions under 6050I. I think as Mr. Keeney said, the problem with the lack of prosecutions has not been lack of commitment on the part of the Department of Justice to bring these cases. It has nothing to do with the sanctions per se so much as the cases are not being presented.

My new office, the money laundering office has sample indictments and jury instructions ready to go when we have a case to bring to indictment. We are ready to go.

Mr. **Keeney**. I would like to add that the criminal penalties are substantial. I think the civil penalties could and should be increased and make the merchant pay a substantial penalty for his greed even though the evidence may not be sufficient for the criminal prosecution.

Chairman **Pickle**. We have discussed this morning the possibility of increasing civil penalties and other corrections. Obviously, if the penalties are too low, you will not have much prosecution and not much enforcement of it. So we may need to make them stiffer and lay the groundwork for prosecution if it is not complied with.

We tried to make estimates how much the U.S. Treasury is losing because of the narcotics problem. It goes into billions. It is an enormous problem to try to get your hands on and try to handle it.

I have a feeling that literally billions of dollars are not being collected now simply because of the underground economy, the underground practices of these cash transactions and the business community as a whole is being allowed to go forward.

Nobody knows the sum. But it is so prevalent that there is hardly any adherence to it. I think all of us together have to work to do a better job. I appreciate it, Mr. Keeney, that you said you will try to be better and try to be active on it. We would like you to make some specific suggestions and we would like to have your responses as we go forward. We don't want to change the statute and change it so it causes more trouble than it helps. You can do that in haste. We are struggling with this problem. As we struggle in the narcotics field we also have to say that the law has to be enforced in the business community. So we ask your cooperation.

Do you have any other questions, Mr. Shaw?

Mr. **Shaw**. No. Thank you, Mr. Chairman.

Chairman **Pickle**. I thank you.

I appreciate very much your patience. I know you came early and you had to stay a long time. We wanted to get all this information on the record. Your testimony has been very helpful.

Mr. **Shaw**. Mr. Chairman, before we do conclude, I would like to add my compliments that the other members have stated to our staff and the borrowed staff who are now real gutsy shoppers that they did the entire country a tremendous service by showing in a very public way what is going on out there.

I think they sent a strong message not only to us but also to the Internal Revenue Service and to the Department of Justice. I think you, Mr. Chairman, have certainly done yourself proud by having this hearing and really fulfilling the true purpose of an oversight hearing in the United States Congress.

Chairman PICKLE. Thank you, Mr. Shaw. I thank all the committee members. I am pleased that you would make note of the very effective work of the staff of this committee.

Now this committee will stand adjourned.

[Whereupon, at 1:47 p.m., the hearing was adjourned.]

[Additional questions to the Department of Justice and their responses follow:]

J.J. PICKLE, TEXAS, CHAIRMAN
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WASHINGTON, DC 20515

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MICHAEL A. SUPERATA, COUNSEL TO THE MINORITY

October 2, 1990

The Honorable Richard L. Thornburgh
Attorney General
U.S. Department of Justice
Main Justice Building, Room 5111
10th and Constitution Avenue, N.W.
Washington, D.C. 20530

Dear Mr. Attorney General:

Please provide answers to the following additional questions for the record of the September 20, 1990 Subcommittee hearing on money laundering.

1. What are the Department of Justice guidelines for referral by the Internal Revenue Service of cases involving potential criminal violations of Internal Revenue Code section 6050I?

2. Provide copies of the sample 6050I indictment and sample jury instructions referred to by Mr. Harbin at the hearing.

In order to timely close the hearing record for this hearing, I request that the answers to these questions be supplied to the Subcommittee no later than close of business October 19, 1990. If you have any questions please contact Beth Vance, Staff Director, at 225-5522.

Sincerely,

J. J. Pickle, Chairman
Subcommittee on Oversight

JJP/tal

U.S. Department of Justice

Office of Legislative Affairs

Office of the Assistant Attorney General

Washington, D.C. 20530

March 6, 1991

The Honorable J.J. Pickle
Chairman, Subcommittee on Oversight
Committee on Ways and Means
Washington, D.C. 20515

Dear Mr. Chairman:

We are responding to your additional question for the record of the September 20, 1990, Subcommittee hearing on money laundering, requesting Department of Justice guidelines for referral by the Internal Revenue Service of cases involving potential criminal violations of Internal Revenue Code Section 6050I.

Our guidelines are reflected in Tax Division Directive No. 87-61, Delegation of Authority for Tax Prosecutions Involving Returns under 26 U.S.C. Section 6050I, a copy of which is enclosed. In general, Directive No. 87-61 delegates to the United States Attorneys authority to authorize certain tax prosecutions under 26 U.S.C. Sections 7203 and 7206 with respect to the filing or failure to file returns prescribed by 26 U.S.C. Section 6050I (IRS Form 8300). The types of prosecutions specifically excluded from this delegated authority are set out at the top of page two of the Directive. We are also enclosing the portion of the United States Attorneys Manual discussing prosecutions involving Section 6050I returns.

If we can be of any further assistance, do not hesitate to get in touch with us.

Sincerely,

W. Lee Rawls
Assistant Attorney General

Enclosures

DEPARTMENT OF JUSTICE

TAX DIVISION

DIRECTIVE NO. 87 - 61

DELEGATION OF AUTHORITY FOR TAX PROSECUTIONS INVOLVING RETURNS UNDER 26 U.S.C. SECTION 6050I

By virtue of the authority vested in me by Part O, Subpart N of Title 28 of the Code of Federal Regulations (C.F.R.), particularly Section 0.70, delegation of authority with respect to authorizing tax prosecutions, under Title 26, United States Code (U.S.C.), Sections 7203 and 7206 with respect to Returns (IRS Form 8300) Relating to Cash Received in a Trade or Business as prescribed in 26 U.S.C. Section 6050I, is hereby conferred on the following individuals:

1. The Assistant Attorney General, Deputy Assistant Attorneys General, and Section Chiefs of the Criminal Division.

2. Any United States Attorney appointed under Section 541 or 546 of Title 28, U.S.C.

3. Any permanently appointed representative within the United States Attorney's Office assigned either as First Assistant United States Attorney or Chief of criminal functions.

4. Any Attorney-In-Charge of a Criminal Division Organization Strike Force established pursuant to Section 510 of Title 28, U.S.C.

5. Any Independent Counsel appointed under Section 593 of Title 28, U.S.C.

This delegation of authority is expressly restricted to the aforementioned individuals and may not be redelegated.

The authority hereby conferred allows the designated official to authorize, on behalf of the Assistant Attorney General, Tax Division, tax prosecutions under 26 U.S.C. Sections 7203 and 7206 with respect to returns (IRS Form 8300) prescribed in 26 U.S.C. Section 6050I relating to cash received in a trade or business; Provided, that:

1. The prosecution of such tax offenses (e.g. Sections 7203 and 7206) involves solely cash received in a trade or business as required by 26 U.S.C. Section 6050I.

2. The matter does not involve the prosecution of accountants, physicians, or attorneys (acting in their professional representative capacity) or their employees; casinos or their employees; financial institutions or their employees; local, state, federal or foreign public officials or political candidates; members of the judiciary; religious leaders; representatives of the electronic or printed news media; officials of a labor union; and publicly-held corporations and/or their officers.

3. The Tax Division of the Department of Justice will be furnished by certified mail a copy of the referral from the Internal Revenue Service to the designated field office personnel regarding the potential tax violations.

Except as expressly set forth herein, this delegation of authority does not include the authority to file an information or return an indictment on tax matters. The authority hereby delegated is limited solely to the authorization of tax prosecutions involving the filing or non-filing of returns (IRS Form 8300) pursuant to 26 U.S.C. Section 6050I. The authority to alter any actions taken pursuant to the delegation contained herein is retained by the Assistant Attorney General, Tax Division, in accordance with the authority contained in 28 C.F.R. 0.70.

Notwithstanding this delegation, the designated official has the discretion to seek Tax Division authorization of any proposed tax prosecution within the scope of this delegation or to request the advice of the Tax Division with respect thereto.

Roger Olsen

Roger M. Olsen
Assistant Attorney General
Tax Division

Approved to take effect on February 27, 1987.

6-4.219 Assistance of Criminal Section Personnel

The Tax Division will consider requests by the U.S. Attorney for litigation assistance. Reasons for requests for trial assistance include those instances when the U.S. Attorney:

A. Recuses himself/herself and his/her office;

B. Lacks sufficient resources or personnel; or

C. Declines to prosecute a matter. (*See* USAM 6-4.245, *infra*.)

The U.S. Attorney is generally expected to handle those matters accepted for prosecution under the non-complex procedures. *See* USAM 6-4.244, *infra*.

6-4.240 U.S. Attorney's Responsibilities

The U.S. Attorney is normally responsible for investigation and prosecution of criminal tax matters after authorization by the Tax Division. *See* USAM 6-2.212, *supra*.

6-4.241 Review of CRLs

The U.S. Attorney will receive a copy of CRLs in any matters under the investigative jurisdiction of CID and referred to the Tax Division for prosecution or prosecution-related actions when venue for charges recommended in the referral falls within the U.S. Attorney's district. The U.S. Attorney may desire to review the matter and communicate his/her views to the Tax Division within twenty-one (21) days of receipt of the CRL, or within such shorter period as may be necessitated by an impending expiration of the statute of limitations or other exigent circumstances. When no comments are received within three (3) weeks, the Tax Division will assume that the U.S. Attorney did not wish to express his/her views regarding the prosecution potential of the matter.

6-4.242 Recommendation of Grand Jury Investigation

At the conclusion of a grand jury investigation authorized by or on behalf of the Tax Division, the U.S. Attorney conducting the investigation should submit an analysis of the investigation to the Tax Division and recommend either that charges be brought or prosecution be declined. If nontax charges are recommended, the analysis must explain how these nontax charges relate to the tax charges. A copy of the proposed indictment or information should accompany the analysis. In addition to the U.S. Attorney's analysis, all relevant exhibits generated during the course of the grand jury investigation, the transcript of the proceedings, and the CRL and SAR must be submitted. *See* USAM 6-4.127, *supra*.

The Tax Division must receive this material at least sixty (60) days prior to the expiration of the statute of limitations unless the Tax Division already has agreed to handle the matter in accordance with USAM 6-4.215, *supra*.

6-4.243 Review of Direct Referral Matters

The direct referral program is designed to promote the rapid prosecution of matters that constitute an imminent drain on the U.S. Treasury. Because immediate action is often required, IRS is authorized to refer the following categories of matters directly to the U.S. Attorney for prosecution:

A. Excise taxes—all 26 U.S.C. and 18 U.S.C. offenses involving taxes imposed by Subtitles C, D and E, except Chapter 24;

B. Multiple filings of false and fictitious returns claiming refunds (18 U.S.C. §§ 286 and 287)—all offenses wherein taxpayer files two or more returns for a single tax year claiming false refunds, excluding return preparers who falsify returns to claim refunds;

C. Trust fund matters (26 U.S.C. §§ 7215 and 7512)—offenses involving alleged violations of the trust fund laws;

D. ''Ten percenter'' matters (26 U.S.C. § 7206(2))—when arrest occurs contemporaneously with the offense;

E. Returns (IRS Form 8300) relating to cash received in a trade or business pursuant to 26 U.S.C. § 6050I (26 U.S.C. §§ 7203 and 7206 only). *See* DOJ Tax Division Directive No. 87-61 (Feb. 27, 1987).

The U.S. Attorney may initiate or decline prosecution of direct referrals without prior approval from the Tax Division (whereas in all other instances the U.S. Attorney can initiate proceedings only with specific Tax Division authorization). However, once prosecution has been initiated, the indictment, information, or complaint may not be dismissed without the prior approval of the Tax Division. *See* USAM 6-4.246, *infra*.

6-4.244 Review of Noncomplex Matters

Within three months of receipt of a designated non-complex matter, the U.S. Attorney is to review the matter and initiate proceedings, request that the matter be declined (*see* USAM 6-4.245, *infra*), or request that the Tax Division handle the matter (*see* USAM 6-4.219, *supra*).

6-4.245 Request to Decline Prosecution

A. Request by U.S. Attorney

Whenever the U.S. Attorney feels that a particular tax matter should not be prosecuted, those views are to be forwarded to the Tax Division. The

Harry S. Harbin
Deputy Director
Money Laundering Office
Criminal Division
United States Department of Justice

SAMPLE INDICTMENT

26 U.S.C. § 6050I(f)(1)(A)

On or about _____(date)_____ in the _____(District)_____,

__________(Defendant(s))__________

did knowingly and willfully for the purpose of evading the return requirements of Title 26, United States Code, Section 6050I(f)(1)(A), and the regulations promulgated thereunder, cause and attempt to cause a trade or business, to wit, _____(identify trade or business)_____, to fail to file a return required to be filed thereunder (IRS Form 8300) with the Internal Revenue Service, in connection with a transaction or series of related transactions involving the receipt, exchange, and transfer of a sum of United States Currency in excess of ten thousand dollars ($10,000), to wit, _____(amount of currency ($)_____.

All in violation of Title 26, United States Code, Sections 6050I(f)(1)(A) and 7203; Title 26, Code of Federal Regulations, Sections 1.6050I-1; and Title 18, United States Code, Section 2.

SAMPLE INDICTMENT

26 U.S.C. § 6050I(f)(1)(B)

On or about ______(date)______ in the ______(District)______,

______(Defendant(s))______

did knowingly and willfully for the purpose of evading the return requirements of Title 26, United States Code, Section 6050I(f)(1)(A), and the regulations promulgated thereunder, cause and attempt to cause a trade or business, to wit, ______(identify trade or business)______, to file a return required to be filed thereunder (IRS Form 8300) with the Internal Revenue Service, in connection with a transaction or series of related transactions involving the receipt, exchange, and transfer of a sum of United States Currency in excess of ten thousand dollars ($10,000), to wit, ______(amount of currency ($______)______, that contained a material omission or misstatement of fact.

All in violation of Title 26, United States Code, Sections 6050I(f)(1)(B) and 7203; Title 26, Code of Federal Regulations, Sections 1.6050I-1; and Title 18, United States Code, Section 2.

SAMPLE INDICTMENT

26 U.S.C. § 6050I(f)(1)(C)

On or about _____(date)_____ in the _____(District)_____,

__________(Defendant(s))__________

did knowingly and willfully for the purpose of evading the return requirements of Title 26, United States Code, Section 6050I(f)(1)(A), and the regulations promulgated thereunder, structure or assist in structuring and attempt to structure or assist in structuring, a transaction or series of related transactions, with [a trade or business/ two or more trades or businesses], to wit, _____(identify trade(s) or business(s)_____, by receiving, exchanging, or transferring, or directing others to receive, exchange or transfer, a sum of United States Currency in excess of ten thousand dollars ($10,000), to wit, \_\_\_\_\_(total amount of currency ($_____)_____, in amounts not greater than $10,000.

All in violation of Title 26, United States Code, Sections 6050I(f)(1)(C) and 7203; Title 26, Code of Federal Regulations, Sections 1.6050I-1; and Title 18, United States Code, Section 2.

SAMPLE INDICTMENT

Conspiracy to Violate 26 U.S.C. § 6050I(f)

The Grand Jury charges:

1. At all times relevant to this Indictment, a Report of Cash Payments Over $10,000 Received in a Trade or Business (IRS Form 8300) was required to be filed with the Internal Revenue Service for each transaction, or series of related transactions, in United States or foreign currency in excess of $10,000 with any trade or business, including all receipts, exchanges, or transfers of such currency by, through, or to the trade or business, reflecting the identity of the individual from whom the currency was received, the person (if any) on behalf of whom the transaction was conducted, a description of the transaction and method of payment, and the identity of the trade or business reporting the transaction.

2. From on or about ____(date)____ to on or about ____(date)____, in ____(District)____ and elsewhere, defendants ____(name defendants)____, did knowingly, willfully, and unlawfully combine, conspire, confederate and agree with each other and with others known and unknown to the Grand Jury:

(A) To knowingly and willfully cause trades or businesses to fail to file reports on currency transactions as required by Title 26, United States Code, Section 6050I(f) and Title 26, Code of Federal Regulations, Section 1.6050I-1, in connection with a transaction or series of related transactions involving a sum of currency in excess of $10,000, to wit, ______(total amount of currency)______, between on or about ____(date)______, and on or about ______(date)______, as fully set forth in Count(s) ______(list count(s))______ of this Indictment, which is incorporated by reference herein, in violation of Section 6050I(f) of Title 26, United States Code, and Section 2 of Title 18, United States Code.

(B) To knowingly and willfully cause trades or businesses to file reports on currency transactions as required by Title 26, United States Code, Section 6050I(f) and Title 26, Code of Federal Regulations, Section 1.6050I-1, that contained material omissions or misstatements of fact, in connection with a transaction or series of related transactions involving a sum of currency in excess of $10,000, to wit, ______(total amount of currency)______, between on or about ____(date)______, and on or about ______(date)______, as fully set forth in Count(s) ______(list count(s))______ of this Indictment, which is incorporated by reference herein, in violation of Section 6050I(f) of Title 26, United States Code, and Section 2 of

Title 18, United States Code.

(C) To knowingly and willfully, for the purpose of evading the reporting requirements of Title 26, United States Code, Section 6050I and Title 26, Code of Federal Regulations, Section 1.6050I-1, structure or assist in structuring and attempt to structure or assist in structuring a transaction or series of related transaction with one or more trades or businesses, involving a sum of currency in excess of $10,000, to wit, ____(total amount of currency)____, between on or about ____(date)____ and on or about ____(date)____, as fully set forth in Count(s) ____(identify count(s))____ of this Indictment, which is incorporated by reference herein, in violation of Section 6050I(f) of Title 26, United States Code, and Section 2 of Title 18, United States Code.

3. The manner and means by which the objectives of the unlawful conspiracy were accomplished consisted among other things of the following:

[Fill-in]

Overt Acts

[Fill-in]

All in violation of Title 18, United States Code, Section 371.